96-167

1980 STANDBY GASOLINE RATIONING PLAN

HEARINGS

BEFORE THE

SUBCOMMITTEE ON ENERGY AND POWER

OF THE

COMMITTEE ON
INTERSTATE AND FOREIGN COMMERCE
HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

H.J. Res. 575, H.J. Res. 571, H.J. Res. 574 and H.J. Res. 577

JOINT RESOLUTIONS RELATING TO A RATIONING CONTINGENCY PLAN

JANUARY 31; JUNE 23, AND 27, 1980

Serial 96-167

NEWARK PUBL'C LIBRARY
OCT 24 1980
U. S. GOVT. PUBS.
DEPOSITORY 376

Printed for the use of the
Committee on Interstate and Foreign Commerce

66-957 O

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1980

Y4.In 8/4:

best copy available

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

HARLEY O. STAGGERS, West Virginia, *Chairman*

JOHN D. DINGELL, Michigan
LIONEL VAN DEERLIN, California
JOHN M. MURPHY, New York
DAVID E. SATTERFIELD III, Virginia
BOB ECKHARDT, Texas
RICHARDSON PREYER, North Carolina
JAMES H. SCHEUER, New York
RICHARD L. OTTINGER, New York
HENRY A. WAXMAN, California
TIMOTHY E. WIRTH, Colorado
PHILIP R. SHARP, Indiana
JAMES J. FLORIO, New Jersey
ANTHONY TOBY MOFFETT, Connecticut
JIM SANTINI, Nevada
ANDREW MAGUIRE, New Jersey
EDWARD J. MARKEY, Massachusetts
THOMAS A. LUKEN, Ohio
DOUG WALGREN, Pennsylvania
ALBERT GORE, Jr., Tennessee
BARBARA A. MIKULSKI, Maryland
RONALD M. MOTTL, Ohio
PHIL GRAMM, Texas
AL SWIFT, Washington
MICKEY LELAND, Texas
RICHARD C. SHELBY, Alabama
ROBERT T. MATSUI, California

JAMES T. BROYHILL, North Carolina
SAMUEL L. DEVINE, Ohio
TIM LEE CARTER, Kentucky
CLARENCE J. BROWN, Ohio
JAMES M. COLLINS, Texas
NORMAN F. LENT, New York
EDWARD R. MADIGAN, Illinois
CARLOS J. MOORHEAD, California
MATTHEW J. RINALDO, New Jersey
DAVE STOCKMAN, Michigan
MARC L. MARKS, Pennsylvania
TOM CORCORAN, Illinois
GARY A. LEE, New York
TOM LOEFFLER, Texas
WILLIAM E. DANNEMEYER, California

KENNETH J. PAINTER, *Acting Chief Clerk and Staff Director*
ELEANOR A. DINKINS, *First Assistant Clerk*
WM. MICHAEL KITZMILLER, *Professional Staff*
RANDALL E. DAVIS, *Associate Minority Counsel*

SUBCOMMITTEE ON ENERGY AND POWER

JOHN D. DINGELL, Michigan, *Chairman*

RICHARD L. OTTINGER, New York
PHILIP R. SHARP, Indiana
ANTHONY TOBY MOFFETT, Connecticut
DAVID E. SATTERFIELD III, Virginia
TIMOTHY E. WIRTH, Colorado
EDWARD J. MARKEY, Massachusetts
PHIL GRAMM, Texas
AL SWIFT, Washington
RICHARD C. SHELBY, Alabama
ANDREW MAGUIRE, New Jersey
ALBERT GORE, Jr., Tennessee
MICKEY LELAND, Texas
HARLEY O. STAGGERS, West Virginia
(Ex Officio)

CHARENCE J. BROWN, Ohio
CARLOS J. MOORHEAD, California
JAMES M. COLLINS, Texas
DAVE STOCKMAN, Michigan
TOM CORCORAN, Illinois
TOM LOEFFLER, Texas
JAMES T. BROYHILL, North Carolina
(Ex Officio)

FRANK M. POTTER, *Staff Director and Counsel*
DAVID B. FINNEGAN, *Counsel*
DAVID SCHOOLER, *Counsel*

CONTENTS

Hearings held on:

Page
January 31, 1980 1
June 23, 1980 71
June 27, 1980 119

Text of:

H.J. Res. 571 73
H.J. Res. 574 73
H.J. Res. 575 73
H.J. Res. 577 73

Statement of:

Akaka, Hon. Daniel K., a Representative in Congress from the State of Hawaii on behalf of the House Travel and Tourism Caucus 124
Cobb, Joe, director of energy policy, Council for a Competitive Economy 177, 179
Firestone, Frederic N., Ph. D., visiting professor of economics, University of Virginia 177
Funk, William, Assistant General Counsel for Petroleum Regulations, Economic Regulatory Administration, Department of Energy 2
Gilman, Hon. Benjamin A., a Representative in Congress from the State of New York 120
Moore, April, National Consumers League 154
Richard, Dan, Jr., adviser to chairman, California Energy Commission 126
Robinson, Douglas, Deputy Administrator, Policy, Economic Regulatory Administration, Department of Energy 2
Rollins, Hazel R., Administrator, Economic Regulatory Administration, Department of Energy 2, 74
Rosenfield, Harvey J., staff attorney, Congress Watch 154, 166
Schaumberg, Peter, Office of General Counsel, Economic Regulatory Administration, Department of Energy 74
Thompson, Gil, Urban Environment Conference 154, 169
Van Lare, Barry, head, Preimplementation Project Office, Economic Regulatory Administration, Department of Energy 74
Welman, J. C., Jr., chairman, gas rationing task force, American Bankers Association 137

Additional material submitted for the record by:

American Hospital Association, letter dated January 31, 1980 68
Council for a Competitive Economy, additional remarks of Joe Cobb 184

Energy, Department of:

Attachment to Ms. Rollins' prepared statement, rationing plan preimplementation cost estimates 84
Letter dated June 23, 1980, from Barry L. Van Lare, Special Administrator for Gasoline Rationing, Department of Energy to David Schooler, subcommittee staff, re organizational chart and establishment of gasoline rationing preimplementation project 113
Letter dated August 21, 1980, from Lynn R. Coleman, General Counsel, DOE, to Chairman Dingell re authority to carry out the rationing plan 65
State plans 109
Energy and Power Subcommittee, Interstate and Foreign Commerce Committee, article from the Indianapolis Star entitled, "WWII Rationing, 1979 Crisis Compared" 55
Gilman, Hon. Benjamin A., a Representative in Congress from the State of New York, estimated monthly allotment per passenger vehicle under proposed coupon rationing 122
International Plate Printers, Die Stampers & Engravers Union of North America, Angelo LoVecchio, statement 224

Additional material submitted for the record by—Continued Pa

- Manufacturers' Agents National Association, statement 2
- Mikulski, Hon. Barbara A., a Representative in Congress from the State of Maryland, letter dated January 30, 1980, from Congresswoman Mikulski to Chairman Dingell with attached study entitled, "Using Microdata to Evaluate Gasoline Rationing Plans for a Large Metropolitan Area" ....
- National Association of Wholesaler-Distributors, William C. McCamant, vice chairman of the board, statement 2
- National Consumers League, report entitled, "Fair-Share Rationing: The Citizen Response to the Department of Energy's Proposed Standby Plan," January 17, 1980 1
- National Solid Wastes Management Association, Linda B. Wilbur, manager, fuel policy program, statement 22
- Urban Environment Conference, attachments to Mr. Thompson's prepared statement:
  - Statement on President Carter's gasoline rationing proposal—June 12, 1980 1
  - Letter dated June 2, 1980, from George Coling, coordinator, UEC, to President Carter 1
  - Letter dated January 31, 1980, from George Coling, coordinator, UEC, to Secretary of Energy Charles W. Duncan, Jr 1

1980 STANDBY GASOLINE RATIONING PLAN

THURSDAY, JANUARY 31, 1980

House of Representatives,
Subcommittee on Energy and Power,
Committee on Interstate and Foreign Commerce,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2123, Rayburn House Office Building, Hon. John D. Dingell, chairman, presiding.

Mr. Dingell. The subcommittee will come to order.

The subcommittee meets today to discuss the progress of the Department of Energy in the development of a gasoline rationing plan. Nearly a year ago, the subcommittee was meeting to consider the President's original rationing plan. That plan was regretably not approved by Congress, but as a result of its defeat, the Emergency Energy Conservation Act was enacted. In addition to its emergency conservation program, the law established new procedures for preparing and implementing a rationing plan.

Under the new law, a rationing plan is deemed approved unless both Houses disapprove it by joint resolution during a 30-day period. While on its face it appears that congressional review is limited, that is not the fact. No rationing plan may be implemented if either House objects. More importantly, no rationing plan will succeed unless it enjoys widespread approval and is perceived by the public as fair.

In addition to the rules relating to congressional review, the new law also requires the administration to keep the committees currently informed of the plan's progress. This hearing is designed to assist DOE in carrying out that responsibility to assist the committee in their process and plans of the Department to the degree that they are able to tell us.

Consultation between the Congress and the executive branch on this subject is crucial to achieving widespread support for a plan. The subcommittee is interested in the thoughts of the DOE and expects DOE to be prepared to listen to our comments. I am disturbed that the DOE has not been making a better effort on its own initiative to inform the committee. I remind our witness from DOE of statutory duties in this regard and request that steps be taken to insure regular reports to the committee.

I have reviewed the proposed plan which was published for public comment and I find that it has moved much closer in meeting the concerns expressed by the Congress last year. For example, greater reliance is placed upon local boards to meet special needs; commercial users will receive allotments based upon historical use; priority categories have been expanded to include overlooked groups such as taxicabs. Most of these steps, however, are not fully embodied in the plan itself. Instead, they appear as statements of intention in the preamble to the plan. It is clear that the final plan must contain sufficient detail to carry out the intentions stated in the preamble.

From the perspective of the gasoline user or the gasoline supplier, it is important that there be as much certainty as possible, so that planning can take place. Certainly the DOE must retain some flexibility to deal with changing circumstances, but discretion should be bounded by clear guidelines and fair administrative procedures.

The new rationing law contains one other safeguard on rationing. It established a trigger of 20 percent as our best perception of when rationing would become necessary. Recognizing the inherent uncertainty over the circumstances when rationing is necessary, the law does permit rationing during lesser shortages if both Houses waive the 20-percent trigger. These provisions establish a reasonable condition upon rationing, while permitting exceptions if there is agreement to do so. Therefore, amending this trigger would serve no purpose.

The Congress has already devoted considerable time to issues relating to the allocation of coupons. We must now begin to more closely examine the issues of costs and timetables. I am concerned by administration estimates that it will take a year or more to bring the plan to a state of readiness. Indeed, the authority to ration expires in October 1981. We must determine how this preimplementation time can be reduced and what the costs will be, or what actions can be taken by the Government or its different agencies, the Congress or the executive, to see to it that the plan is in place for a sufficient time and that it is brought forward under conditions which enable it to work to the best of all concerned.

I am pleased to welcome the Honorable Hazel Rollins, in her first apperance before the subcommittee as Administrator of the Economic Regulatory Administration. I wish to express the congratulations of the committee that you have been appointed.

STATEMENT OF HAZEL R. ROLLINS, ADMINISTRATOR, ECONOMIC REGULATORY ADMINISTRATION, DEPARTMENT OF ENERGY, ACCOMPANIED BY WILLIAM FUNK, ASSISTANT GENERAL COUNSEL FOR PETROLEUM REGULATIONS, ERA; AND DOUGLAS ROBINSON, DEPUTY ADMINISTRATOR, POLICY, ERA

Ms. ROLLINS. Thank you.

Mr. DINGELL. And duly confirmed. I am happy also to welcome Mr. Robinson and your other associates here, and if you will identify yourself for the assistance of our reporter, we would be delighted to receive your statement.

Mr. FUNK. My name is William Funk. I am the assistant general counsel for Petroleum Regulations.

Ms. ROLLINS. Hazel Rollins, Administrator, Economic Regulatory Administration.

Mr. ROBINSON. Douglas Robinson, Deputy Administrator, Policy, of the Economic Regulatory Administration.

Mr. DINGELL. Ms. Rollins, you are recognized.

Ms. ROLLINS. Thank you, Mr. Chairman.

I am pleased to have this opportunity to report on our progress in developing a new standby gasoline rationing plan. Recent world events have shown once again how vulnerable our Nation is to a sudden cutoff in our vital petroleum supplies. Although the Department of Energy has developed this standby rationing plan in the hope that it will never have to be implemented, we believe it is essential to have an approved standby rationing plan on the shelf. In the event of a severe petroleum supply interruption, we will be able to ensure the continuation of essential services and provide each user with access to an equitable portion of the reduced gasoline supply.

The Department of Energy published draft regulations for a proposed standby gasoline rationing plan in the Federal Register on December 10, 1979. The proposed plan was developed to reflect specific concerns expressed by the Congress in debates on the previous plan which was rejected by the House of Representatives last spring and in the congressional hearings on legislation authorizing the development of a new plan.

Consistent with the intent of Congress expressed in the Emergency Energy Conservation Act, we compressed the public comment period to expedite the development of a final plan. In spite of the shortened 30-day comment period, we received over 1,500 comments on the proposal, and we are currently considering a number of issues raised by the public during the hearings. We hope to have this process completed shortly, and we intend to submit our final plan to the President early next month. We welcome this opportunity to discuss the plan with the Members of Congress and to receive any comments and suggestions you may have.

The gasoline rationing plan as proposed in the December Federal Register notice would be based on vehicle registrations and would operate as follows: Prior to each ration period, the Department of Energy would estimate the number of gallons available to the Nation for that period. Based on this estimate of total available supply, the Department would determine the number of ration rights to be distributed, according to the following formula:

First, a small percentage of the total ration rights—about 1 percent—would come off the top to establish a national ration reserve. This ration right would be used to provide relief in cases of unexpected national disaster, and to provide for the needs of the Department of Defense. The remaining ration rights would be allocated among the States according to each State's percentage of total gasoline consumption during a specified base period. A State ration program, similar to the national reserve, would be established for each State. Entitlements for the State reserve would come off the top of each State's total allotment, and would be available for distribution by State and local boards.

Once the States reserves have been established, the Department of Energy would compute, on a State-by-State basis, the allotments for priority activities, such as police and fire protection, emergency services, et cetera, for farming, and for businesses which would receive allotments based on historical usage during a specified base period. The remaining ration rights in each State would be distributed among owners of vehicles registered in that State. The proposed plan includes provisions to transfer ration eligibility when a vehicle is transferred to expedite the distribution of ration rights to the purchasers of new vehicles.

The Department would distribute the ration rights by printing and mailing ration checks to eligible recipients, who would in turn exchange the checks for ration coupons at designated issuance points. Ration coupons would be freely transferable, and the plan envisions the formation of a ration rights market. The Department of Energy would not regulate this market unless such regulation were necessary to prevent abuses. The Department of Energy would also be authorized to buy and sell coupons whenever necessary to assure that the number of ration rights issues is equal to the actual supply of gasoline.

I believe that it would be useful to discuss the most significant differences between the proposed plan and the plan that was rejected by the Congress last spring. We have eliminated many of the concerns that Congress identified in the previous plan. First, the proposed plan provides that the ration rights be distributed among the States on the basis of each State's gasoline consumption during a recent base period. This change would have the effect of directing more ration rights to those States which have greater requirements for gasoline, and is in response to congressional requirements of the Emergency Energy Conservation Act that the States should share equally the burden of any gasoline shortage.

Second, the proposed plan provides State and local governments with a large role in administering the ration program. The States would have considerable flexibility in determining the size of the ration reserves. The plan would also grant considerable discretion to the States in the administration of the State reserves. Through the local board concept we would delegate to the States primary differences in requirements between urban and rural areas within the State and for accommodating the needs of special end users, particularly the handicapped and special hardship cases.

Third, the proposed plan makes a significant change in the formula for distributing ration rights to commercial users. Instead of issuing ration rights solely on the basis of licensed vehicles, commercial users would, under the current proposal, be allocated ration rights on the basis of their historical gasoline consumption during a recent base period.

This change is in response to congressional concern for the need to insure that allotments to commercial users would more nearly reflect their actual gasoline requirements.

Finally, the proposed plan would expand the category of priority activities to include taxicabs, energy production activities, and certain telecommunications services.

At this time we are continuing to examine a number of unresolved issues raised by the comments submitted to date. I would like to outline for your consideration a number of those unresolved issues.

First, we are still receiving considerable comment suggesting that ration rights for personal use should be distributed to licensed drivers rather than to the owners of registered vehicles. There are convincing arguments for both approaches, as well as disadvantages to each. We are keeping an open mind on this issue. Distribution of allotments to licensed drivers could be perceived as being more equitable in that it would not favor those persons who can afford more than one car, and it would not encourage people to purchase or retain unserviceable vehicles in order to obtain additional ration rights.

Vehicle ownership, on the other hand, appears to be a better indicator of gasoline use. Staff analysis from a variety of sources indicates also that this approach would achieve a more equitable distribution of ration rights between urban and rural areas.

Whichever approach is finally adopted, we are examining ways to minimize abuses inherent in either system. We are studying in particular the possibility of restricting the number of ration rights available to a single family household.

We have been contacted by many groups and individuals seeking priority status under the plan, such as car and truck rental firms and private freight, cargo, and mail hauling firms. We are currently analyzing the difficult issue of establishing priority treatment for some users over others, and attempting to equalize the burden of the shortfall and resulting economic impacts on various sectors of the economy.

With respect to priorities for agricultural production, the plan proposed in December would provide additional ration rights for off highway vehicles and equipment used in agricultural production. After review of public comments and discussions with the Department of Agriculture, we are seriously considering a proposal to include agricultural production in the class of activities receiving the highest priority. We are also considering a proposal to expand the definition of agricultural production to include processing and distribution of agricultural products.

I would like at this time to address three specific issues raised by the chairman in his letter of invitation. The chairman requested a timetable indicating the minimum amount of time required to implement the proposed rationing plan once it was approved by Congress. The timetable will depend on many factors such as available resources, and personnel and priorities with respect to other DOE programs. Our best estimates indicate that, once approved, it would require 17 to 21 months to implement the gasoline rationing plan described in the December Federal Register notice under normal conditions.

This estimated time schedule could be significantly shortened to 7 to 12 months if sufficient resources and personnel are authorized. However, I would like to point out that there are certain tradeoffs involved in implementing an expedited rationing plan. The shorter the implementation period, the less time can be devoted to potential administrative and enforcement problems, such as establishing verified lists of eligible recipients and protecting against fraud.

The Department is currently exploring other less complex approaches which would enable the nation to respond quickly to an abrupt disruption of supply for a full scale rationing plan would be ready for implementation. Most of the department's effort since enactment of the EECA have been devoted to the prompt development of the full scale coupon rationing plan.

The chairman also requested additional information on the proposed ration rights market and its operation. Since there has never been a comparable exchange medium in this country, we obtained advice from various experts in the Nation's commodities future markets. Based upon their recommendations, we are currently developing an automated data collection system that would track the distribution and redemption of ration rights. This system would provide consumers with information on current market prices and availability and would also indicate to the Government the extent to which the ration rights market is efficiently distributing rights to persons and areas where the need is greatest. As I have indicated, our proposed plan would also give the Government flexibility to buy and sell coupons on the exchange market if necessary to keep ration rights in balance with available gasoline supply.

Finally, the chairman asked about the extent of contractor assistance in developing the proposed rationing plan. Following enactment of the Emergency Energy Conservation Act, we found it necessary to augment our relatively small emergency planning staff of only seven professionals with contractor support in order to meet the President's timetable for submission of a new plan. Because of the subcommittee's concern about a proposed $87,000 contract with Gordian Associates and the time that would have been involved in reviewing potential conflict of interest questions that had arisen, I canceled that specific procurement action.

However, I subsequently approved a contract for further analysis of the coupon exchange market. The total amount for this contractor assistance is less than $6,000. We have complied fully with the congressional mandate to minimize contractor involvement in developing a new standby rationing plan.

Mr. Chairman, this concludes my formal remarks. I will be happy to answer any questions that you or the subcommittee might have.

Mr. DINGELL. Ms. Rollins, the committee thanks you for your assistance to us. The Chair advises we will recognize our colleagues for questioning in the order of their appearance.

The Chair observes the gentleman from California, Mr. Moorhead, was first to arrive and he will, therefore, be recognized for 5 minutes.

Mr. MOORHEAD. Thank you. We appreciate your being here this morning.

Ms. ROLLINS. Thank you.

Mr. MOORHEAD. The proposed gasoline rationing plan is a strikingly similar plan to a plan that Congress rejected last year in that the plan's foundation rests on coupons distributed on the basis of registered vehicles. Last year, we realized that this system would benefit the wealthier citizens who own more cars than one and would also benefit junkyards.

Can you tell us what perfections or embellishments DOE has come up with that would make the proposed plan more palatable than the plan we had last May?

Ms. ROLLINS. I can't tell you that there are additional embellishments. I can tell you, Congressman Moorhead, we spent a great deal of time and did a great deal of analysis in attempting to determine whether or not the inequities that are perceived in a registration plan exist, and what we found last spring and continue to find this spring, is that there is a transfer of income no matter which allotment plan entitlement you use.

The interesting thing, however, is that the greatest income transfer occurs when one uses drivers licenses as the entitlement for gasoline rationing coupons, and I believe that that entitlement also takes away from middle American incomes and gives a great deal to those who are in the low-income bracket.

As regards the safeguards, I would simply tell you that we have spent some time conversing with directors of State motor vehicle offices and have determined that we can, through the vehicle registration file, keep track of changes in the automobile market. Indeed, there still exists the problem with what we have termed "junkers." The one control that we have added that we think helps keep the junkers, if you will, out of the registration office, is simply the requirement that these cars be roadworthy and about 50 percent of the State inspection for safety automobiles on the highways requires that an automobile be moving, so actually we have 25 States with which we will have to spend time designing a method to determine whether unroadworthy cars, if you will, are being used for junkers.

Mr. MOORHEAD. I think one of the things that concerns me is that there is so much flexibility in the plan that a lot of people have said it doesn't have that much substance to it, and so many major decisions seem to be left to the preimplementation stage. Can you tell me what comments you would make about that?

Ms. ROLLINS. Well, I can say to you again, Congressman, that my view is here the difference has been that there is an expectation that this plan could really be fleshed out with final guidelines and, if you will, ultimate decisions on implementation when we frankly have gotten no further than the basic outline.

In discussions with staff, the one thing we realize, especially if you have been through this twice, is that you need to finalize your basic structure before you can fill in and undergird the plan. There is a need, of course, once we finished with preimplementation. I believe we have to come forward with another set of guidelines, which would be regulations for implementation of the plan. As much as I would like to be able to provide for this record and for everyone here, more detail, that detail cannot frankly come until we have determined the basic framework of the proposal.

Mr. MOORHEAD. One thing that has come to our attention, basically through the press, is that the President doesn't like the trigger mechanism contained in EECA. Apparently he would like to have the authority to ration gasoline if we only have a 5-percent shortfall. It appears that the White House views gasoline rationing as a conservation tool rather than a measure to deal with a serious crisis.

Would it be advisable to concentrate on devising new and innovative ways to increase the production of gasoline or other alternative fuels in order to promote economic progress rather than concentrating on extremely expensive schemes designed to share shortages?

Ms. ROLLINS. Congressman, the plan before you today is the plan which we hope would be used in a standby status only and would be implemented upon a 20-percent shortfall trigger.

This administration does work and continues to work with the Congress on a number of proposals which would increase supply and more importantly, we have at the direction of the Congress, worked on a number of plans which would permit us to implement conservation programs that could work in the shortfall.

Mr. **Moorhead.** If we had a 20-percent shortfall, how long would it take you to implement this plan?

Ms. **Rollins.** The language that I uttered earlier this week, what I discussed was the 7 months to 12 months implementation of an emergency plan, I think still holds, but as I indicated in my formal testimony, that timetable can, of course, be expedited, but in order to expedite, the Government, both the administrative branch and the legislative branch, must determine what additional resources we must put behind the plan in order to expedite its development.

Mr. **Dingell.** Time of the gentleman has expired.

The Chair recognizes the gentleman from Texas, Mr. Gramm.

Mr. **Gramm.** Thank you, Mr. Chairman.

Ms. Rollins, I have followed the rationing bill with a great deal of attention because I was the author of the now infamous trigger amendment, which the President keeps talking about. I assume he is doing it for political reasons without any legislation coming to Congress and without the Department of Energy being aware of any effort. I assume that these statements are being made with some objective in mind other than to change the legislation.

First of all, I think given the constraints that you face, your plan is basically a good plan. I think it basically fits the guidelines we outlined in giving you the bill and I am pleased to see you recognize there is no fair rationing plan. Anything you do is going to produce a tremendous reallocation of wealth, and whether you will allocate coupons by license plates or by drivers licenses there are still going to be significant problems in urban and rural allocation; there are still going to be significant wealth transfers from rural areas to city areas, from rural States to urban States, from the South and West to the Northeast and Midwest. Recognizing these problems, I think it is so important we clearly understand that we are talking about an emergency plan. A plan that is fair and acceptable in a catastrophic shortage, in my opinion, might be grossly unfair with a 5-percent shortage.

So I would like to begin by simply asking you, to the best of your knowledge and intent, do you view this plan that you have put forward and the guidelines you outlined as a plan to be used only within the triggers defined in Congress?

Ms. **Rollins.** We view this plan as an emergency standby plan which would be used only in an emergency. Those of us who have been at this, Congressman Gramm, for the past 2 years know, as you have just indicated, that almost anything you try to do in alloting these coupons, while it may give equity in the left hand it takes it away in the right.

Nobody here who has worked on this plan is anxious to see it implemented. It must be ready in case we need it, but we do not pretend that it is a tool which can be used without great care.

Mr. **Gramm.** So you don't see rationing, as sometimes it is portrayed in public discussions, as being a quick fix for any problems other than a catastrophic shortage?

Ms. **Rollins.** This rationing plan, sir, cannot be a quick fix.

Mr. **Gramm**. You see it as something we would use in a real emergency, knowing that it has got failings, but noting that in a catastrophic shortage there aren't any good solutions?

Ms. **Rollins**. The thing I like to do is go back and read the discussions among the gentlemen who had responsibility for planning the gasoline rationing plan in World War II and the great tension among them is a tension that exists today in the public discussions about this plan—when does one trigger.

Those who want to do it equitably and see the program implemented and to work out its kinks suggest that the sooner the better. They suggest that as soon as you have a plan that you could implement during a time of, full, not drastic shortfall, and you could ease the public into it gradually and subsequently work out the problems. There was a great discussion about that in 1942 and 1943. There will continue to be great discussions of that in 1980. Hopefully we will be able to get off the dime and do the right thing.

Mr. **Gramm**. Well, people, of course, remember the 1940's, and remember rationing, but they forget that our economy was much simpler, the demand and diversities were different. I had one lady who stood up in a meeting when I was talking about rationing being a $2 billion Federal expenditure with a similar imposition of cost on the private sector, the problems in dealing with the coupons and the inequities of wealth distribution. She stood up and said, "You talk about rationing as if it is something that is bad, but I lived through it and I don't remember it being that bad."

And I said, "ma'am, how old were you in 1943?"

She said, "I was 18 years old."

I said, "When you are 18 years old not many things are bad."

I would like to just add one comment and then yield back the balance of my time.

As a person who sat through all the hearings of all the groups that wanted to be treated special, every American thinks that he has some special treatment due him in any kind of rationing plan, and I would like to urge you to basically do two things. I would like to urge you to limit to the absolute minimum the number of exemptions you give in the program and limit the amount of special treatment that you give. I think nothing else will put the amount of pressure that is necessary to assure that we don't prematurely use this than to assure that everybody is going to be equally burdened by its imposition.

And No. 2, I think it is imperative, since we used every computer in the country and could not simulate all the descisions and information that will be needed to make allocations, that we maintain the white coupon aspect so that trading can occur on the market and so that safety valve usages can be protected by people being able to buy and sell the coupons.

Thank you, Mr. Chairman.

Mr. **Dingell**. The Chair recognizes now the gentleman from Illinois, Mr. Corcoran.

Mr. **Corcoran**. Thank you, Mr. Chairman.

First of all, Ms. Rollins, I want to extend my congratulations on your appointment. I know you were out of Government recently and now back in and we are happy that you are and that you are here this morning.

Ms. **Rollins.** Thank you.

Mr. **Corcoran.** My first question is just a general question. At this point in your work on the rationing proposal, can you give us any indication as to what the total cost of administering this program will be?

Ms. **Rollins.** I am very comfortable talking to you about last year's cost figures simply because we have been moving so quickly here, also because I made a last minute determination to forgo contractor support, our work on costing out this radically different plan is, I am afraid, a little behind. The most I can tell you at this moment is that we are certain for a number of reasons, that the cost will be well above the $2 billion figure we were able to give you last spring.

Here are the reasons: We come forward with a plan that requires a great deal from State and local government. That assistance, the involvement of those boards, quite frankly does not come without a cost.

In addition, the reality that inflation has come to visit us yet another year also adds to the cost of the plan, and we have gotten some revised figures from several sources on the cost for printing the coupons. Depending upon where that settles down, that will be, too, I think, an increased cost. Hopefully by the end of this week we will have some figures which you will understand we will have to take through our process and have it approved as we would any budget items, and as soon as we have those figures moved through the process, we will be providing them to the committee.

Mr. **Corcoran.** What will be the additional staffing requirement in your agency and what is your estimate for State and local governments?

Ms. **Rollins.** I can ask Doug Robinson to give you explicit figures which you have to understand are not scrubbed at all but are our best estimates right now with regard to staffing and also what would be required at the State and local level.

Mr. **Robinson.** Last year we estimated to implement a gasoline rationing plan at the Federal level—this is now full scale implementation of the plan during a period of rationing—probably in the order of around 5,009 Federal employees, which is roughly half the size of the Department of Energy right now, and probably at least that many at the State and local level.

Mr. **Corcoran.** I would like to address a different aspect of the subject now. As I analyze the proposal that has been published in the Federal Register, one of the outstanding characteristics to me is the fact that in this proposal there will be a number of opportunities for various impacted groups, whether companies like trucking companies or whether individual hardship cases, or whether States that feel as though they are not adequately provided for, that they will be able to apply for additional allocation. I wonder if you can give me any notion as to how much of the program is going to be discretionary in that respect and how much of it will be targeted into the various eligible groups for the coupons?

Are we talking about, for instance, 40 percent of the program that is going to be discretionary, or are we talking about a relatively minor 5 percent, for example?

Ms. ROLLINS. Well, we are definitely talking about the five in the State rationing reserve.

Mr. CORCORAN. There is a provision in here for an increase by any State that may be unhappy. Such States can apply and get more depending upon the timing of the primary season, I suppose?

Ms. ROLLINS. There are realities and then there is, too, the cynicism I hear there in your voice.

Mr. CORCORAN. There is a connection between the two.

Ms. ROLLINS. I understand, sir, we have not yet determined that there ought to be some ceiling above which States cannot go when they move into their request for that hardship allotment.

I guess the reason we haven't is because it is a very difficult determination to make. It is clear that there ought to be some cap. We spent a lot of time discussing this last year, should it be 7, should it be 8? I can tell you quite frankly that I am not certain now.

I understand your concern. You can't let the States have an opportunity to run away, think about the brother-in-law, the board chairman and county executive getting additional stamps. I think one of the ways you take care of that is in setting, if you will, once again the mysterious guidelines which do not exist today for handling, if you will, those hardship cases in the State.

Now, I think the direction of the Congress, when you spoke to us of hardships was that we take care of the handicapped, those who had emergencies which might be economically based, and we have looked at a number of Federal programs that attach those kinds of criterion in making judgments about what States shall get.

Mr. CORCORAN. Are you saying taxicab drivers are more handicapped than hospital employees?

Ms. ROLLINS. No, nor should they be included.

Mr. CORCORAN. Do they not get priority under your plan? Why are they given a priority?

Mr. DINGELL. Time of the gentleman has expired. The witness may answer the question.

Ms. ROLLINS. The taxicab drivers would be moved only in the priority classification. First of all, I like to do charts, so the way I would draw States would be first of all, a ration reserve which would hold a small number of coupons, 5 percent or something a little greater than that, for those special human, if you will, hardship needs.

The priority classification, in my view, has been somewhat muddied by our tentative decision that we should deal with businesses on a historic basis period. Firms that might move into the priority class would be receiving some percentage of their base-period consumption, but it certainly wouldn't be that much greater than those in the next class, business in general. All business would receive some percentage of their base-period consumption.

I think what we have done, if you will, I hate to mention these with the special interests sitting behind us, we have really made a priority classification that will be given business in general simply because they will now be treated on a historical base-use period.

Mr. **Dingell**. Time of the gentleman has expired.

The Chair recognizes now the gentleman from Alabama, Mr. Shelby.

Mr. **Shelby**. Thank you, Mr. Chairman.

Since we are talking about priority class activities—I believe that is the term that is used in the proposal—does the Department of Energy plan to change the definition of telecommunications services in that regard so that these services, that is, telephone and so forth, will receive a priority status at all times like other emergency services and not just during periods of substantial disruption of normal service?

In other words, I am sure you recognize the background, and you are familiar with this, under the priority class activities you have certain rights to apply to DOE for supplemental allotments, and so forth, but it seems to me that communications, after telephone services is down because of snow or ice, or you name it, or gets in disrepair because they are not working on it, then you apply for an allotment.

That is compounding the problem. It looks like this should be a priority service because you can save a lot of gasoline if you have good telephone service or telecommunications service at home and conducting business. What is your intention?

Ms. **Rollins**. Congressman Shelby, I do recognize the problem and at this time we are recommending that the telecommunciations industry, if you will, be accorded——

Mr. **Shelby**. Priority?

Ms. **Rollins**. Priority classification, that is correct.

Mr. **Shelby**. It makes a lot of sense to me that after the fact it is harder to do things rather than keep them up.

Ms. **Rollins**. I recognize that, too, sir.

Mr. **Shelby**. Along another line, my colleague from Texas, Mr. Gramm, mentioned the market for so-called white coupons. Now, I think that they ought to be traded and be able to be traded, but what bothers me is being able to trade them upward like a free market. I could see them going up like gold and silver around the country, especially such as Washington, D.C. and the suburbs, New York City, and other eastern areas, discriminating against regions of the Deep South, like I come out of, where we have no public transportation to speak of, like you do in the East. If I were living in D.C., and I am, and I have a car and I use it very frequently, and I have an allotment for so much gas and then I say I am going to trade my stamps upward, I think that that is very unfair.

Is there any way that the Department of Energy can put a lid on that they can be traded but that they can't be traded for money, in other words?

Ms. **Rollins**. Congressman Shelby——

Mr. **Shelby**. Have you thought about this?

Ms. **Rollins**. Yes; we have thought about it a great deal, a great deal since last spring, I might point out to you. Our tentative thinking at this moment is that we want to give the DOE the authority to go in and purchase coupons and rather than, if you will, set a ceiling or some set figures over which or under which world prices were not allowed to be established, we would like to have the flexibility to go into the marketplace.

First of all, we could do several things. We would be able to affect the price, if it was determined that the price was too high in an area, by, if you will, manipulating it the way the commodity futures market can be manipulated.

But more importantly perhaps, also to go in and insure that supply is being moved where it needs to be moved.

We are, as I said in my formal testimony, not terribly sophisticated about this, simply it is like nothing we have ever undertaken before and we are spending a great deal of time examining concepts that have been developed by the people over at the Commodities Future Exchange Commission.

Mr. **Shelby**. That is exactly what I am getting at, I say that a plan that would allow you to trade these coupons upward is wrong, it is going to be unfair to the overwhelming majority of Americans, that a rationing plan ought to be based on need, not how much money you have got.

Ms. **Rollins**. I understand your point and I am not saying we are consuming them simply because we want to take the whole cloth of what they have developed. We want to understand what the pitfalls are there and do the best with what they have. We continue to have a very open mind about this because we don't think we know a heck of a lot yet.

Mr. **Shelby**. Can't you envision people riding the bus to work, a lot of people, and then they see the Mercedes or Cadillac driving on in with only one person in it, and there is going to be a lot of resentment, I know there would be from me, because someone can trade up or they can buy the stamps, and that violates the whole doctrine of fairness, as I see it.

Ms. **Rollins**. I understand exactly the concern.

Mr. **Shelby**. What is the Department of Energy going to do about it?

Ms. **Rollins**. I am telling you at this moment we still support the idea that there should be an exchange market. We recognize the opportunity for both abuse, which is obvious, and we recognize that there will be created the opportunity which some people may not consider abusive, and that is simply to purchase the coupons and force supplies up.

We believe that simply the classic—I hate to get into this discussion—but the classic economic theories on elasticities of demand will permit us to control the price of coupons by simply controlling the price of gasoline. There are a number of ways to control the problem here and it may not necessarily be manipulating the exchange market, it may be simply manipulating the price of gasoline.

Mr. **Shelby**. Thank you.

Mr. **Dingell**. The Chair recognizes the gentleman from Connecticut, Mr. Moffett.

Mr. **Moffett**. Thank you, Mr. Chairman.

Thank you for being here, Ms. Rollins.

I apologize for not having been here earlier. I understand that in response to a question from Mr. Gramm regarding rationing as a last resort and whether the administration still views it in that way—you correct me if I am wrong—indicated that it is viewed as more or less as a last resort after other things are utilized. That clearly leaves the question of what about those other steps that were provided in S. 1030, the targets for the States and so forth, and a variety of other kinds of authorities that the President could conceivably utilize.

If in fact we are in a situation where we are still of the mind, we have a consensus that we are terribly vulnerable to oil cutoffs in foreign countries, and volatile kinds of situations in those Persian Gulf countries, and we generally agree regardless of what our political philosophies those imports are at an intolerable level, how tough is the administration planning on being in utilizing those other steps, the steps that do indeed insure that rationing is a last resort, that do indeed provide reasonable assurances that we obtain considerable conservation so that we don't have to go to rationing?

Clearly price has had some conservation effect, but clearly we can't rely upon price, at least I don't believe we should rely upon it exclusively. I don't believe we should rely on it primarily.

Is it your feeling that the administration and DOE and the people working on gasoline conservation are prepared to be tough and will we see that reflected in the way these additional targets are set and what the States are required to do to address them?

Ms. ROLLINS. I think the DOE is very tough but the DOE is also being tough and very fair on setting those gasoline consumption targets and moving into a program. Just as we are being questioned here today from the ERA side, in terms of program implementations, is the plan ready? The same thing is being done on the conservation side. Very important in my view is having the States given a fair opportunity to negotiate the very complex elements of again the formula that has to be used to set for each State its gasoline consumption targets and set for each State its gasoline consumption reduction targets. That dialog unfortunately takes a little time to get behind you.

Next week the States will be meeting with DOE in what ought to be the final round of establishing that methodology. More important, again next week, the DOE will publish the Federal plan which the President can implement if the State does not implement its own plans under guidance and authority given by the Congress.

Mr. MOFFETT. How specific will that Federal plan be? Will we and our constituents be able to look at this Federal plan, that plan as published, and see specific measures that would come into effect?

Ms. ROLLINS. Yes, specific measures in a book that was about this large exists. I saw it only last Thursday night. I quite frankly, Congressman Moffett, have not read it yet. Of course, some of those plans we worked on in ERA years before and they are as specific as the plans that have been developed and used by many of the, if you will, forerunner States who have conservation programs that they have used over the past years.

Mr. MOFFETT. Is there any thought to trying to close these shopping malls on Sunday, for example, so we don't have people tooling around and trucking around from one shopping mall to the next looking for a good buy on some particular product?

Ms. ROLLINS. Congressman Moffett, there has been a thought given to that every year since I have been working in either the

FEA, and DOE and that has been 5 years now. The interesting thing is that if one would look at demand figures for this past month and actually the last quarter of last year, I have to tell you it is my belief that there are not a lot of people running around from shopping center to shopping center, simply because we have managed as a nation to reduce demand.

You point out, of course, that maybe—

Mr. **Moffett**. Have you been to Tysons Corner on any Sunday recently?

Ms. **Rollins** [continuing]. Maybe solely due to the economics of the thing. But the fact is, sir, that demand for both gasoline and middle distillate have been down for the last year.

Mr. **Moffett**. I know, and I am very happy about that, but I think we make a big mistake if we spend too much time standing over those figures of reduced consumption and make very much of them, because we are in serious trouble. You know it better than I do. We have to look at some ways to get some real bite in that gasoline, take a real bite out of gasoline usage, and I would hope it was the intent in working on and in being an original author of that section of the bill, to give you the tools to have you be as tough as possible.

I am just afraid that this being an election year and a variety of other things that confront us, that the administration will come in with some really mushy targets and not get the kind of tough conservation that we all know is necessary.

Ms. **Rollins**. Well, I can commit this for, if you will, the other side of the DOE house, no mushy targets, accurate reporting, and as the President has indicated, and certainly the legislation directs, if the States don't live up to these and meet these voluntary targets, then there is nothing to do but push that trigger. In my view, that is the process that ought to be followed.

Mr. **Moffett**. I just hope when the trigger is pulled, if it is pulled, there is something behind it, there is some ammunition in the gun, because if you have really soft targets and the trigger is pulled, it doesn't have any real effect.

Ms. **Rollins**. I understand.

Mr. **Dingell**. Time has expired.

The Chair recognizes the gentleman from Indiana, Mr. Sharp.

Mr. **Sharp**. Thank you, Mr. Chairman.

Ms. Rollins, I want to compliment you and your people for what has to be a horrendous task. We are reasonably good at pork barreling things. When we can expand the pie we have a great deal of time. When we have to reduce the pie we would rather you did that for us.

Let me ask you facetiously if you have received any telephone calls or any letters from any organization, that standard lobbying group, suggesting they might be able to reduce their consumption and not fall in the priority category?

Ms. **Rollins**. I would have to tell you I have seen lots of other letters saying lots of other things about this plan, but those, I haven't received that kind of news.

Mr. **Sharp**. I did have a request to give the news media a special allotment, they will be happy to know, because to deliver newspapers takes gasoline, at least for the paper boy, and that would violate the first amendment rights of this country and of the news media if we fail to provide them a very high priority category.

Well, obviously we all understand this problem and I don't mean to dwell on it. Let me ask you this: If we were to implement, which we cannot do, I understand the plan is not ready, gasoline rationing now, can you give us any estimate as to what additional cost it would be for the consumer?

The reason I asked that is the notion that is in my view waning in I hope acceptance in this country, that we could save everybody from price increases if we would only ration gasoline. Do you have any kind of indication as to what, just to start right now, we would have to do if we decided to cut back?

Ms. ROLLINS. Well, the figure we were using last year, the administrative cost of the program if it were allocated to each gallon of gasoline available under a 20-percent shortfall, last year was about 2 cents a gallon.

As Congressman Shelby pointed out, the greater cost, of course, would be to those who were moving in the exchange market because the additional cost would be incurred through the need to purchase additional ration coupons.

If you look, our $1.60 figure, which is the cost of a coupon—that is a gallon entitlement of the coupon, built upon the assumption that gasoline would be $1.10 a gallon, and if you are swifter than I am with your calculator, you can take that and prove it.

Mr. SHARP. It strikes me a lot of the people who ask for rationing now are fairly sizable users. I am talking about the average citizen now, not the corporation or anything of that sort.

But if you drive a long distance to work, they are naturally concerned about these rising costs. They tend to petition us to say ration now because we would be protected where we were.

But in reality that citizen is probably the one that uses above average gasoline. Therefore, that person's costs are likely to skyrocket because he will not only have the 2 to 5 cents a gallon that everybody will pay with the coupon on the thing, but they will also have the additional $1.60 or $2, or whatever that prices goes to, for additional coupons.

So, I just want to help nail home the myth of protecting the consumer on price, especially the consumer who is the big user and is the one who feels he is going to be the most hurt by price increases, that somehow he has a great deal coming if we would just ration now.

In addition, you indicated that there may be an additional cost besides that 2 to 5 cents a gallon because if you find it necessary to do something about holding the price on the white market you may have to raise the price or the Department allow the price to go higher under the control of the normal supply of gasoline, right?

In other words, you might let that go another 5 or 10 cents, or more, in hopes that that would dampen consumption. In other words, I don't mean to lecture you because you are more aware than almost anybody of the problems. I am just trying to get some acknowledgement, trying to drive home what I think is a political reality that tends to continue remarkably to escape some people.

Ms. ROLLINS. We are doing a big piece now sort of explaining gasoline rationing, the history of where we have come from, where we are trying to go. I asked for a section in it that says, in the outline, this plan is no rose garden. "I never promised you a rose garden." Not the one on Pennsylvania Avenue.

I think almost every person in the United States who is offered the option, do you want gasoline rationing, would say yes because somehow each of us has a sense of we have not been involved in the planning, that it is going to be absolutely fair and equitable.

You know, my headline in the outline says, "It ain't no rose garden." I don't know how you take that message home when I feel I have the obligation also to sell the idea that there may come a time when we will need this plan, which is no rose garden. If you see me being tentative, it is with that reason.

This plan has a use, but its use is not immediate and it does not solve every problem. It hopes to address some horrendous problems.

Mr. **Sharp.** Some of us are on the same wavelength. We see this as a reserve for a severe emergency when the alternatives are worse than the rationing plan. But to just casually jump into it I think would be a fundamental mistake.

I think the politicians would be changing their tune within 2 weeks after the gut middle class comes back with its opposition to the plan, and we would have—I don't know how many additional caseworkers we would have in our offices on rationing stamps. Those employees never get counted in.

I am very concerned on all of our conservation programs we be ready to go. I know you are. You gave us the 7 to 9 or 12 months that you thought on a normal time period it would take. But you indicated if you had additional resources that could be done more quickly.

Let me ask you, is it the kind of resource that you are talking about that could be quickly instituted? If 2 weeks from now we decided we really needed to rush this plan, what could we do that would cause that to happen?

Ms. **Rollins.** All right. Here are some things that I believe we need.

Obviously a quick infusion, if you will, of staff. I have indicated to you—they are not all here—the seven people working this plan, and you have complimented them. I want to compliment them publicly because every time we crank up another change, every time another letter comes in, it is those seven people who do it all, like it or not.

Now, we have certainly had other assistance in terms of detailing people in. Anybody who knows anything about the bureaucracy knows when you want a person who is there committed to get the thing done.

When you talk about establishing these systems for distributing coupons and identifying the 130 million or so people in the United States that must receive checks, with names and addresses on them, cross-checked, one has to buy capability for that information.

That means, quite frankly—and I am quick to say it sitting here—it means we are going to have to have some special authority to contract. The normal contracting procedure that we use in the Department generally takes 4 to 9 months to get through the system—the people who have the information that will permit us to buy the vehicle file.

Even assuming we go to drivers licensing, we still have to set up a national file of licensed drivers. We have got to buy the capability to get that information, to flush out, if you will, the duplications, to flush out the bad information.

One of the staff told me this year when they were at a public hearing the director of the Office of Motor Vehicles for the State of New Jersey said, first of all, his file was the best in the Nation and that he believed that he had a 25-percent error rate in his data,, his computerized file for registered vehicles. If you went to drivers licenses it would be 50 percent.

I say all this to say that we are about to embark on establishing a system that is bigger than any I know in the Government. It cannot be done with the traditional systems that Government is permitted to use to get its work done. That is what we need.

Mr. SHARP. The 25-percent error rate estimate and the 50 percent—in other words, that is another one of the major reasons why you people selected vehicles over drivers licenses because even the data there you think would be far better than it would be——

Ms. ROLLINS. That is what the people who run the offices at the State level tell us.

Mr. DINGELL. The time of the gentleman has expired.

The chairman recognizes the gentleman from Michigan, Mr. Stockman.

Mr. STOCKMAN. Thank you.

Ms. Rollins, I have been looking at your new plan. I have to suggest that you still have a fundamental design defect that you had in the old one. I would like to discuss it as I see it for a minute and get your reaction.

There is no integration in this between the coupon system for users and the allocation system for sellers. What you really have is two separate rationing systems.

Buyers of gasoline would get coupons based on vehicle registration, modified by historic consumption in the State. Sellers of gasoline, in a short market, which is the postulated condition, would get gasoline based on the existing, very complex allocation system which has to do with historic purchases, supplier-purchaser relationships and so forth.

Now, as I have tried to think that through, I see two very serious problems.

No. 1, there will be no correspondence in any local market or State between the amount of gasoline supplied through the distribution system each month and the amount of coupons supplied to users through the rationing system.

In some areas you will have far more gasoline than coupons initially. In other areas you will have far more coupons than gasoline.

Now, part of this whole thing is an equity matter. The idea is that if you don't want to use the coupon you sell it on the white market and recapture some of the value. In some areas the value of the coupon could be zero because you could not use it even if you bought it. In other areas the value of the coupon could be $2 or $3 a gallon because there would be supplies available to purchase.

I don't think that would last very long. What you do is create a tremendous business for the brokers who can move these coupons that are mismatched with the gasoline from one area of the country to another, and probably pocket a pretty good profit in the process. I don't think that is intended in the whole design here.

The other thing is that the coupon system for buyers is very fluid. You have an unregulated white market. You can sell it anywhere, at the bowling alley, at the drug store, at the bar, in the school parking lot, or whatever.

Brokers will spring up all over. You will have a pretty well-developed market nationwide. I imagine the brokerage firms would get involved and so forth.

On the other hand, the allocation system for sellers is rigid, it is absolutely rigid, and everybody who is entitled, whether they are a wholesaler jobber or retail operator, will use every gallon of gasoline they can get because their allocation fraction is going to be down in the 70 to 60 percent range. So, no gasoline can possibly move at all.

I really think you have to think through some way of meshing these two systems. Otherwise, you are going to get some dislocations, you are going to get some developments as messy as a black market rationing system that nobody ever expected, that is going to make everybody very mad.

Have you thought about that at all? It may be an insurmountable problem.

The ideal way in my view would be to junk the allocation system and let the coupons drive the gasoline around the market. Have you been thinking that through at all?

Ms. ROLLINS. I have been thinking it through for the last 3 weeks. More importantly, the staff has, too.

The one thing we would have to admit is that we know our gasoline allocation system is not perfect. To suggest that we want to create two systems—if we could bless it with something holy, it might work—is perhaps to ask you to stretch your imagination too far. We recognize the problem.

You know, I would like to comment that everything you say is generally true. We are now examining just what portions of an allocation system would have to remain in place. We believe, as a staff, they are very few.

But this is what I say—we have issues that are still open. This is an issue that is wide open simply because we recognize the problem that you have just so graphically described.

Mr. STOCKMAN. But you are working on that. As I understand it, what you have proposed thus far assumes the allocation system would stay in place.

Ms. ROLLINS. No; what I want to leave you with is the clear impression that we recognize very limited portions of the allocation system would have to stay in place.

Mr. STOCKMAN. So, that is a difference then in terms of your general policy position from last time, when you had two unconnected parallel——

Ms. ROLLINS. Exactly.

Mr. STOCKMAN. So you are moving——

Ms. ROLLINS. We learned a lot last spring.

Mr. Stockman. I am glad to hear we are making progress in that direction. Whether you believe in the system or not, if you are going to impose it you have got to do something on that to make it work.

I want to raise one other question that I am wondering whether you have done any thinking about. You indicated the 20-percent shortage you expect the control led price to be $1.10 and the white market price to be $1.60. The whole idea of this is to clear the market at a price far lower than if you just let things go on their own.

I am wondering if you have contemplated the prospect that the international oil market might be the starting line in getting the market cleared. Here is what I am suggesting we learned last year.

When you have an event that disrupts the oil supply it creates enormous uncertainty and apprehension about future availability in the entire world market. Everybody starts buying any crude oil that is available.

Look at the Japanese harbors today. They are practically impossible with loaded tankers. So, if the event were to occur that would cause us to pull the trigger and begin to move toward implementing this system, it seems to me that the world oil price, now that OPEC doesn't really have any effective ceilings anymore, is going to go through the ceiling immediately as people scramble to line up supplies. By the time you actually got approval from Congress, by the time you went through all the administrative steps you would have to take and got the frist round of coupons mailed, you might have such a high crude oil price that the market would have cleared already.

Your price controls only control the margin at the refinery and dealer level. If you don't do something to restrain what the buyers of crude, refiners and importers, are doing to drive up the crude price, it is going to pass right through into the retail price even under your control system.

Have you thought that dilemma through at all? I am not sure you are going to get this wide difference between low control price and a very high white market price.

Mr. Dingell. The time of the gentleman has expired. The witness may respond.

Ms. Rollins. I can tell you that we as a staff—and I have personally—have thought about it a great deal since Monday. I understand the point you make.

Mr. Stockman. Do you have any reflections on it?

Ms. Rollins. Well, you know, it has been interesting for me to step out of this and then step back in.

The question I constantly ask staff has to do with, first of all, how we built these assumptions, not so much with regard to price, because I know how we build those, but with regard to the value we have put on or think we will put on a coupon.

The discussion I had with Congressman Sharp and Congressman Shelby, regarding the white market, especially the comment that you have—no matter what the economists say, you have to put an emotional factor into any costing equation.

While I would not like to look at and consider what happened to the gold and silver market, I think I would be a little naive to sit here and tell you that I don't think there is that potential because I do.

Mr. **Dingell.** The time of the gentleman has expired.

The Chair recognizes the gentleman from Tennessee, Mr. Gore, for 5 minutes.

Mr. **Gore.** Thank you, Mr. Chairman.

I would like to welcome you back to the Department.

Ms. **Rollins.** Thank you.

Mr. **Gore.** I want to ask a general question that may be moot. I have felt from the very beginning, since this whole subject was brought up afresh 2 years ago, that the Department made an initial error in jettisoning the idea of rationing on the basis of need as expressed in separate categories, as it was done in World War II.

There was a very early decision made on the basis of a study performed by a contractor, it wouldn't work.

Now, all of the political problems with rationing have flowed from that initial decision. Once you decide that you are not going to ration on the basis of need, then whatever system you come up with, whether it is a set amount to each drivers license or a set amount to each vehicle, is to be fraught with all kinds of inequities, and all of those who are on the wrong side of those inequities are going to speak out against the plan until it sinks into oblivion.

It is now 20 percent underwater and can be resurfaced under the most desirable and unusual circumstances.

Well, I have thought about that a good bit. A number of my colleagues in the House agree with that. Congressman Satterfield and I attach an amendment to the new law that was intended to ask the Department of Energy to reassess that initial decision and review that determination made by that accounting firm, as to whether it was really true that that kind of system is completely unworkable.

That is, you would have category A, B, C, D, and an initial placement of citizens in one of those categories, with the ability to appeal to a higher category with some kind of procedure at the local boards, if they could show it is deserved.

I just think if you had that kind of plan, we would be able to take this 20-percent trigger out and come up with a sensible approach.

I detect from reading the new plan that really it was kind of a pro forma compliance with the amendment that Congressman Satterfield and I attached to the law, and that you really didn't go back and make that determination. Maybe you don't have the staff to do it.

What is your opinion on that? Am I correct in the way I have outlined it?

Ms. **Rollins.** I would like to say to you that I don't believe we have done anything in a pro forma fashion. It would be left to you to judge whether we had or not.

How does one say this? We have got our timetable accelerated. I would like to have the luxury of the time to be appearing before you to discuss the progress report on the gasoline rationing plan. Then we would have laid out for you a lovely discussion of all the issues that were set forth by you and members of this committee in directing us to take a look at issues that of course are crucial and important.

It turns out that the plan is before the report. I would like that to be different. But we are going to kill ourselves, and when the final plan is presented to this body, there will be a report.

At this moment, I cannot tell you that I am comfortable in the examination of that issue. I can tell you that next week I will be more comfortable.

I think the thought I would finally like to leave you with is one you have heard here today; that is, I am old enough to remember World War II. I was not 18. I was a little younger. I remember we had I think a C sticker. That was the sticker that allowed you to get the most gasoline.

We had two cars and we probably didn't need a C sticker on one. But we knew the persons who ran the local board, fair or not. Life was a lot simpler then, as has been pointed out to me, simpler, because there was fear of us here in the United States.

I am just not yet certain, and somebody will tell me for sure, whether we can identify three classes of American citizens and determine from some computer in the DOE who is A, B, or C. But I will speak to you more about that, and we will have examined the issues more carefully.

Mr. Gore. I prefaced my question by saying it is probably a moot question. But I think it is important because I really believe that all of the other political problems have proceeded from that decision.

This is just kind of a boiler plate response that it won't work now because the country is bigger and more complicated. But we find any other approach you come up with is also absurdedly complicated, and it is fraught with all of these inequities.

The virtue of the plan I am suggesting would be that you would have a mechanism to take care of a legitimate inequity when it did arise.

I look forward to your report. I just am sorry that this early decision was so quick and wasn't reviewed thoroughly. But I think you are doing a diligent job. Thank you for being here today.

Mr. Dingell. The time of the gentleman has expired.

The Chair recognizes the gentleman from Texas, Mr. Collins, for 5 minutes.

Mr. Collins. Thank you, Mr. Chairman.

Ms. Rollins, we appreciate you being here. Particularly important is the fact that you have been out of DOE and come back in. You probably have a better perspective on this than anyone.

As the director of this program, do you advocate the system of rationing contrasted to the system of complete deregulation, just an open deregulated market? In a peacetime economy, do you think deregulation might be the best system?

Ms. Rollins. Well, having worked in both systems, I am not going to tell you today that I think one is better.

We are still in the business of regulating the price and the flow of gasoline in the marketplace. Having been out, and being naive enough to want to come back and think I can make a difference, I can also tell you that I personally would like to see us decontrol gasoline prices, simply because I don't think I can do the job that well. I am going to do it the best I can for as long as I can.

The issue regarding gasoline rationing is separate and distinct in my view from the question you have just posed about allocation, control of the product, simply because without controls or with it we need some mechanism to deal with a dramatic shortfall.

That mechanism, if we have a shortfall that is 20 percent, ought to be a standby rationing plan.

I cannot tell you when it might be the appropriate time or climate to get me out of the business of decontrolling gasoline. Whenever that happens, I will be overjoyed and relieved. I think those decisions will be made separate and apart from anything we do here today about rationing.

Mr. Collins. I appreciate your candid comments. But frankly the system did not work, and it would be better to deregulate.

But now, when in peacetime—and I don't know of any historical situation where controls ever have been successful, I cannot think of a single one—you just mentioned WWII rationing, but that was wartime. When in peacetime—and you have studied the subject—have you ever seen rationing work? You said there might be a case where this could work. I just don't believe it has a chance. How could it work?

Can you think of any peacetime precedent as to how it could work?

Ms. Rollins. Yes, I can think of a precedent.

Most of you have been here in this town and wrestling with these issues many more years than I have. But the one thing I can tell you is in the 5 years I have been at it, I have seen the perception of the American public begin to turn about just what it is we intend to be dealing with here, this gasoline crisis, this energy crisis.

I think the time will come shortly when the American public can stand it no more. We will be on our knees, simply because we no longer control what happens to us in terms of our energy decisions and in terms of our economy. And when the American public finally wakes up and recognizes that we have got to do something to, if you will, turn off that spigot and stop our need to import foreign oil, then I think, if we find ourselves also with a 20-percent shortfall in product, that the American public will go for this plan.

Mr. Collins. How does this improve it? We have seen imports of oil go from $3 billion to $90 billion in just 6 years. In other words, all this Government planning and we end up importing more oil.

In France the alternative they have gone to is nuclear. I think in 5 years they will be about 90 percent nuclear on their electricity. We have gone to no alternatives, because we have had Government planning. Government planning can do nothing but make chaos.

How can Government planning improve it now? You said it is going to be worse, and therefore we would have Government planning. But every Government planning situation I have seen has made it worse.

Can you think of any instance, either now or in history, where Government planning has made it better?

Ms. Rollins. I can think of a few. You put me really on the hot seat. Let me try and address one that I think has recently been addressed. As we have talked about energy prices, we have also in season after season said that we were concerned about rising energy costs highly impacting those not able to afford them. I think Government planning has finally done something about that. This Congress passed this year the emergency legislation that set up a fund that would permit the elderly and the poor, those on fixed and low incomes, to get a supplement so that they can pay their energy bills. I think that was a result of Government planning. It took 4 years for the Government to grapple with the problem and decide how they wanted to plan it. But I think that was a positive move, sir.

Mr. COLLINS. They give Texas $45 a month. Ten States, including Connecticut and Iowa will get $250 a month. There is no equity to it. And it doesn't necessarily mean these people even needed the energy. They can be living with their daughter-in-law, and they are said in cash so they can spend it as they choose.

Ms. ROLLINS. You asked me to find a program. You didn't say that it had to be a perfect one. But I certainly think that is an example.

Mr. COLLINS. Thank you, Mr. Chairman.

Mr. DINGELL. The time of the gentleman has expired. The Chair recognizes the gentleman from Texas, Mr. Loeffler.

Mr. LOEFFLER. Thank you, Mr. Chairman.

At the outset I would like to officially congratulate a former colleague of mine, Ms. Rollins, for her new assignment at the Department of Energy. I had the opportunity of working with her while we were both at the Federal Energy Administration.

From a personal standpoint, I am quite comfortable with her qualities and capabilities. Congratulations to you again.

Ms. ROLLINS. Thank you, Congressman.

Mr. LOEFFLER. I would like to quickly go through some rather pointed questions.

No. 1: In looking at your current proposal dealing with the priority categories, does the public transportation service category include intercity bus transportation?

Ms. ROLLINS. Yes; it does.

Mr. LOEFFLER. So in the event that we would have the unfortunate situation where a rationing plan would have to be implemented, there would be priority treatment given to the bus lines that go intercity.

Ms. ROLLINS. That is right. Those busses that are gasoline driven.

Mr. LOEFFLER. That is correct. That brings up another point. In your current policy discussions are you considering at all rationing of diesel?

Ms. ROLLINS. Well, every year when I am in the middle of explaining how much we have got to do with gasoline rationing, somebody asks me about diesel. And every year what I have to say is as soon as we get this one behind us, we will begin to examine what we ought to be doing to follow the direction of the Congress with regard to a plan for distillate.

Mr. LOEFFLER. I would hope that we would be able to move ahead and become self-sufficient in energy here at home before you have to address that particular question.

In looking at the other priority categories, particularly the category of energy production activities, because, in fact, that is the grassroots of our effort to regain our self-sufficiency, I wonder if you might quickly give a brief description of what that priority includes.

Ms. **Rollins**. I would like to ask Doug Robinson to give you a brief description of what we have included in our definition of energy production.

Mr. **Loeffler**. I might also point out I have had the pleasure of working with Mr. Douglas Robinson in the past. I am glad he is before us today as well.

Mr. **Robinson**. Thank you. Energy production as defined in the gas rationing regulations would have essentially the same definition as currently exists in the gasoline allocation regulations under which there is a considerable amount of experience and precedent and so on. And the term is fairly general, but it would include any activity that is engaged in essentially the creation of an energy resource or the extraction of an energy resource.

In other words, it is oil and gas production, coal production. We will undoubedly get into some difficult questions of interpretation when we get involved in alternate fuels. But essentially it is any activity that would result in an increase in the Nation's energy supplies.

Mr. **Loeffler**. Take, hypothetically, the matter of going out to service a well in west Texas, checking the well to see if it is producing, and where you have diesel involved to run the pumps and other transportation vehicles. Does it also, include then, the truck that takes the oil from whatever storage tanks at the well to, say, Midland, Tex.? Would that be included?

Mr. **Robinson**. It absolutely would include all of those activities, yes.

Mr. **Loeffler**. Then I would like to pursue the other classes receiving special attention, one, of course, being agriculture, which is important not only to my district, but to our entire country, because the production of food and fiber is so essential to our own livelihood.

As I understand it now your current intentions are that the plan would only provide for off-highway vehicle use, as far as the priority treatment, is that correct? If that is true, it is somewhat ironic that we are able to move, and I think correctly so, to provide adequate fuel for the production area as well as the transportation area of energy, and we stop short of not being able to follow through on the entire agricultural use, which begins at the production level and ends when we are ultimately able to purchase agricultural products at the grocery store.

Ms. **Rollins**. Well, Congressman, we recognize the folly of our ways in proposing this. In my formal testimony I indicated that we are well aware that, if you will, agricultural production ought to go at least from the farm to the ultimate consumer. And it is our intention to recommend that we address that problem by including off-highway agricultural use that embraces both processing and distribution.

Mr. **Loeffler**. OK. Off-highway, though——

Ms. **Rollins**. I'm sorry. On-highway.

Mr. **Loeffler**. OK. Thank you. I appreciate that.

Finally I would like to ask, in looking at your proposal to provide most business firms with supplemental allotments, if that is an effort to begin to address certain things. Take UPS, for example, where you have a tremendous amount of packages that go across the country. Are they in your current policy determinations someone to be a recipient of a shortfall situation as a result of what happens when rationing begins?

Ms. **Rollins**. Well, at the moment they are in the category of, one doesn't want to call them supplicants, but they are among the group of people who have pointed out to us that the services they provide in the economy perhaps deserve our attention in ranking them in the priority class. And that issue continues to be open.

I am personally recommending that they be included in the priority class. I have quite frankly no idea what will be determined.

Mr. **Loeffler**. I thank you. Certainly the discussion that you and I have had as well as Mr. Robinson on these problems do point out the inequities of rationing. I hope the day does not come that you have to implement such a plan. But I thank you for your very kind observations.

Thank you, Mr. Chairman.

Mr. **Dingell**. The time of the gentleman has expired.

The Chair is going to breach one of the rules of the committee this morning. The gentlewoman from Maryland, a member of the full committee, has to attend a meeting very shortly and has expressed some rather particular interest in the subject matter of this hearing. The Chair accordingly has accorded her the privilege of participating in this hearing. So with the approval of the committee, the Chair will recognize the gentlewoman from Maryland for a period of 5 minutes.

Ms. **Mikulski**. Thank you, Mr. Chairman, for allowing me to sit in on this hearing and to move a little bit up the line.

I have a statement, if I may, that I would like to submit for the record.

[Testimony resumes on p. 50.]

[The statement referred to follows:]

BARBARA A. MIKULSKI
3D DISTRICT, MARYLAND

COMMITTEES:
INTERSTATE AND
FOREIGN COMMERCE
SUBCOMMITTEES:
TRANSPORTATION AND
COMMERCE
HEALTH AND THE ENVIRONMENT

MERCHANT MARINE AND
FISHERIES
SUBCOMMITTEES:
MERCHANT MARINE
COAST GUARD
OCEANOGRAPHY

Congress of the United States
House of Representatives
Washington, D.C. 20515

IN REPLY PLEASE REFER
TO OFFICE INDICATED

■ 236 CANNON BUILDING
WASHINGTON, D.C. 20515
(202) 225-4016

☐ 1414 FEDERAL BUILDING
BALTIMORE, MARYLAND 21201
(301) 962-4510

☐ 2121 EASTERN AVENUE
BALTIMORE, MARYLAND 21231
(301) 962-4461

January 30, 1980

The Honorable John Dingell
Subcommittee on Energy and Power
3217 HOB Annex 2
Washington, D.C.

Dear Mr. Chairman,

I wish to submit the following statment for the record of today's oversight hearings on the Department of Energy's proposed standby gas rationing plan. The proposed plan as circulated by the Department of Energy demonstrates an outrageous flaunting of Congressional intent as clearly stated in the Emergency Energy Conservation Act.

Both the specific language of this act, in Section 102(b) and the legislative history of its enactment, especially the proceedings of the House Commerce Committee during July 1979, make clear the intent of the Congress to give first consideration to a rationing plan which allocates fuel on the basis of licensed drivers. Instead the Department has reintroduced a warmed over version of its orignal plan, allocating gasoline to registered vehicles, which was soundly defeated in the Congress because it was inequitable.

The Department of Energy proposal would wreak havoc on working class families and elderly citizens in this country. It penalizes low income households where many people use the same car for all their transportation needs in favor of the well to do, multi-car household. It actually gives less gas to those who have been trying to conserve by using mass transit or car pools, and rewards the most profligate energy users.

There can be no doubt of the inequity of such a distribution. For an example of the exact economic consequences, I am enclosing a study recently carried out by the Center for Metropolitan Planning and Research at Johns Hopkins University.

As a member of the Commerce Committee who served on the original Ad Hoc Energy Committee throughout 1977, I am deeply concerned with the effects on American society of the present energy situation. I totally understand the need to reduce our dependence on imported oil' and I realize that a standby gas rationing plan is important to such a goal.

However, I can neither accept the present proposal nor overlook the fact that the Department of Energy has ignored the intent of the Congress that any gas rationing plan give serious consideration to allocation to licensed drivers. Ther present Department of Energy proposal is totally unacceptable.

Sincerely,

Barbara A Mikulski

Barbara A. Mikulski
Member of Congress

BAM/crs
enclosure

29

USING MICRODATA TO EVALUATE GASOLINE RATIONING PLANS FOR A LARGE METROPOLITAN AREA

ALLEN GOODMAN
Johns Hopkins University

and

RICHARD WEISSBROD
John Hopkins University and
The Congressional Budget Office

Executive Summary inside

Executive Summary

Substantive energy policy must include a provision to allow the rationing of gasoline. This study examines the effects of a rationing program on individual families within the Baltimore metropolitan area, looking at which groups benefit and the magnitudes of the benefits. A "per person" allocation of coupons is seen to be more favorable to lower income and center city residents than is a "per vehicle" allocation.

The simulation study uses a sample of 965 households in the Baltimore Metropolitan area that shows travel behavior with respect to trip origins, destinations, vehicle types and other transportation characteristics to assess ration-coupon allocations according to different criteria and to compare the effects. Because the government plans rationing for emergencies, the analysis is short-run in nature.

Two rationing schemes are considered. The first allocates coupons per registered vehicle, the second per licensed driver. Monthly allocations of 40, 50 and 60 gallons per vehicle are examined. Comparable per person allocations to adults aged 16 and over are 20.7, 25.9 and 31.1 gallons. Residents are assumed to be able to buy or sell coupons on a "white market."

In the Baltimore metropolitan area an allocation of 50 gallons per vehicle will cause the average household to fall 18 gallons per month short of its needs. Households with incomes of less than $5,000 fare best, with extra coupons for five gallons. Households with incomes between $21,000 and $25,000 fare worst, needing to purchase 37 gallons. The same statewide allocation, distributed on a per person basis gives the lowest income group an excess of 36 gallons; households with over $25,000 must purchase coupons for 68 gallons.

Comparing the city to the suburbs, with the same per vehicle allocation, the typical Baltimore City household must purchase coupons for 14 gallons of gasoline, the Baltimore County resident for 21 gallons. With the per person allocation the typical City resident will neither buy nor sell coupons, the County resident must buy coupons for 50 gallons.

USING MICRODATA TO EVALUATE GASOLINE RATIONING PLANS FOR A LARGE METROPOLITAN AREA

Introduction

Substantive energy policy must include a provision to allow rationing of gasoline. Until now analysts have restricted their efforts to ascertaining the aggregate effects of rationing; little study has occurred examining its effects on individual families within a metropolitan area. (1) Which groups within an area will benefit, and the magnitude of those benefits receive attention in this analysis.

This paper employs a utility maximization framework to generate demand for trips, and then extends the model by introducing a rationing plan and by allowing for the "white market" sale and purchase of ration coupons. The model yields the expected substitution effects away from the relatively more expensive trips. The income effects, while very important, depend on both the initial allocation of coupons, and the "white market" price.

The second part of the paper uses the Baltimore Disaggregate Data Set to estimate distributional effects within a metropolitan area. Assuming short-run travel demand is very inelastic with respect to gasoline price, household surpluses or deficits with gasoline rationing are calculated. The differential effects of "per vehicle" or "per person" allocations are then discussed with special reference to income category, race, and intra-metropolitan location.

Theory

The optimization problem is straightforward. (2) Consider an individual who buys housing (s) at price p and market bundle x, a vector of goods $(x_1, \ldots, x_n)$ with fixed relative quantity weights. The maximum price for bundle x is z, the index price of all components delivered directly to the consumer's residence. The consumer can lower the cost of his bundle by taking an additional trip at cost t such that:

$$y = ps + z\,(f)\,x + tf \tag{1}$$

where f is the number of trips. The family lives on dividend income y so there are no workplace considerations. The first order conditions for utility maximization result from maximizing:

$$L = u(s,x) + \lambda\,(y-ps-z(f)x-tf) \tag{2}$$

or

$$\frac{\partial L}{\partial s} = u_s-\lambda p = 0 \tag{3}$$

$$\frac{\partial L}{\partial x} = u_x-\lambda z = 0 \tag{4}$$

$$\frac{\partial L}{\partial f} = -\lambda(z_f x+t) = 0 \tag{5}$$

$$\frac{\partial L}{\partial \lambda} = y-ps - z(f)x - tf = 0 \tag{6}$$

Recalling that the term "market bundle" inplies one unit of the consumer good, condition (5) becomes (subscripts referring to first and second derivatives):

$$z_f = -t \tag{5'}$$

In "trip equilibrium: the consumer continues to make one-unit trips as long as they lower the price of his market bundle more than the marginal costs of the trip.

Although the discussion refers explicitly to market purchases, it does not limit analysis to them. For example, many trips are made to visit friends. Within the framework derived, a person will travel to see the friend if the trip costs less than to have the friend brought to his or her house. Similar examples, such as the replacement of home delivered items (milk and bread, for example) with the same products purchased at the supermarket, support the more general nature of the argument.

Most rationing systems include the possibility of a "white market" for coupons; the "white market" provision permits individuals to buy and sell coupons. (3) Each individual receives an initial allocation of coupons, J. For simplicity all trips are by car (although other modes are easily included). The individual can buy or sell any amount of coupons at the market rate α such that supplementary income (I) is defined as;

$$I = \alpha(J-cf). \qquad (7)$$

The vehicle required c coupons per trip. The lower the value of c, the more efficient the car. A positive I implies the sale of coupons. A negative I refers to the purchase of coupons. The budget constraint follows:

$$y + \alpha J = ps + z(f)x + (t+\alpha c)f \qquad (8)$$

Optimization of the pertinent LaGrange transformation yields condition (5"),

$$\frac{\partial L}{\partial f} = -\lambda \left(z_f x + (t+\alpha c)\right) = 0 \qquad (5")$$

or

$$z_f = \frac{-(t+\alpha c)}{x} \qquad (9)$$

Applying techniques of demand theory

$$\frac{\partial x}{\partial y} = \frac{-\lambda z_{ff}\,(pu_{sx} - zu_{ss})}{(H_3)} > 0 \qquad (10)$$

where (H_3) the relevant "bordered Hessian" determinant is negative. Similarly,

$$\frac{\partial f}{\partial y} = \frac{\lambda z_f\,(pu_{sx} - zu_{ss})}{(H_3)} = \frac{-z_f}{z_{ff}x}\left(\frac{\partial x}{\partial y}\right) > 0 \qquad (11)$$

As income rises, consumers purchase more goods. This leads to an increased savings in the marginal trip and it is now worth making.

An increase in the ration, J, has elements of an income transfer:

$$\frac{\partial f}{\partial J} = \frac{-\alpha z_f}{z_{ff}x}\left(\frac{\partial x}{\partial y}\right) = \alpha \left(\frac{\partial f}{\partial y}\right) \qquad (12)$$

The most interesting aspects of any rationing plan involve those relevant to types of cars available and to the market price of rationing coupons. Looking first at the efficiency of cars in converting coupons to trips—gas mileage—evaluate the partial derivative of f with respect to c.

$$\frac{\partial f}{\partial c} = \frac{u_{ss}\lambda\alpha z(fz_f - z) + 2pz\lambda\alpha u_{sx} - p\lambda\alpha(pu_{xx} + z_f f u_{sx})}{(H_3)} \qquad (13)$$

three, unambiguouly negative terms. The less efficient the cars are, then fewer trips will be made. Since low income families are more likely to own older, less efficient cars, changes in short-run transportation costs will affect them more heavily than upper income families. (Extensions of the model can take into account the lower valuation of time by the poor person, which might mitigate this effect). (4)

Consider, also, a change in α , the market price of coupons.

$$\frac{\partial f}{\partial \alpha} = \frac{\lambda(J-cf)z_f(pu_{sx}-zu_{ss}) - \lambda c(p^2u_{xx}+z^2u_{ss}) + 2\lambda pzcu_{sx}}{(H_3)} \qquad (14)$$

The second and third terms yield unambiguously negative substitution effects. The first term is positive if (J-cf) is positive and negative if (J-cf) is negative. Substituting this income effect becomes;

$$\frac{\partial f}{\partial \alpha} = (J-cf)\,\frac{\partial f}{\partial y}\;\frac{-\lambda c(p^2u_{xx}+z^2u_{ss}) + 2\lambda pzcu_{sx}}{(H_3)} \qquad (15)$$

If, in the net, the individual buys coupons he will travel less with an increase in α as his net income falls. If, in the net, he sells coupons, he must trade his higher net income for higher commuting costs.

This leads to analysis based on given schemes of rationing. A plan that distributes coupons on a "per person" plan will probably lead to sales from few car households to many car households. A plan that distributes on a "per car" basis will lead to sales from those with many cars (some used lightly) to those who use the cars more intensively.

Simulation

This section considers the effects of gasoline rationing plans within a metropolitan area, using the Baltimore Disaggregate Data Set. This survey of 965 households, taken in late 1977, shows the travel behavior with respect to trip origins, destinations, vehicle types, modes, and other transportation characteristics. Within this framework the analysis assesses ration-coupon allocations according to different criteria and compares the effects. Because the government plans rationing for emergencies, the analysis, short-run in nature, yields measures of several immediate effects that might accompany a rationing program.

The following measures are examined;

1. Mileage Deficit or Surplus—The distance that the household normally travels in one month less the distance available from the household's allocation of rationing coupons, given the numbers and types of household vehicles.
2. Work Mileage as a Percentage of Distance Available—Mileage on trips that include the workplace in one month as a fraction of distance available from the gas rationing. This measure should indicate the extent to which rationing will constrain work trips, which are presumably less flexibly scheduled than other trips.
3. Gasoline Deficit or Surplus—The gallons of gasoline that the household will use less the allocation, given the numbers and types of household vehicles. This differs from the mileage measurement with respect to the fuel efficiencies of the vehicles.

Calculating Mileage

The data set enumerates trips by persons within a family. The primary measure, time spent traveling from origin to destination, is converted to distance by multiplying by average speed. Also available in the data set are "network" distance measures between modes of a regional transportation network. The calculations made are generally quite consistent with the "network" categories. If a member has gone to work at some time before he or she returns home (even if he or she went shopping, visiting or to the doctor along the way) the trip is classified as a work trip. All other trips are classified as non-work trips.

The survey was taken one day of the month although indications were given as to how often given trips are made. To expand the mileage to a monthly total the work trip mileage is multiplied by 22 (work trips in a 30 day month); the non-work trip mileage by 30 (days in a month).

Rationing Plans

Policy makers have proposed two basic schemes for gasoline rationing. The first allocates coupons per registered vehicle, the second per licensed driver. It is thought that the former is benefits families with many vehicles per licensed driver, the latter families with few vehicles per licensed driver. With both plans a "white market" provides for the sale and purchase of unused coupons.

The analysis examines the effects of rationing at various levels of energy deficit. Levels of monthly allocation of 40, 50 and 60 gallons per vehicle are examined. Measures of licensed drivers are not reliable so per person allocations go to adults aged 16 and over. The comparable levels of monthly allocations are 20.7, 25.9 and 31.1 gallons. The gasoline is assumed to be allotted to vehicles in the same proportions as are currently being used.

A second set of assumptions considers that in the event of a rationing plan, the probable increase in price and transactions costs (out-of-pocket and time) in acquiring the coupons will, even in the short-run lead to decreases in mileage traveled and demand for gasoline. This is examined by assuming that work trip mileage stays constant but that nonwork trip mileage declines by 15 percent.

It should be re-emphasized that the results to be presented are short-run in nature. With higher energy costs residents will eventually consider changes in work place, residence or mode of transportation. In the short term, however, these can be considered fixed and the effects of the higher gasoline prices and/or rationing plans can be examined.

Findings

The two major topics examined in this section are the distribution and magnitudes of the effects of various rationing plans. Table 1 indicates the surplus (deficit) of mileage that occur if the households in question continue driving as before. With the "per vehicle method" and 40 gallons per month, only low income households run a surplus and it is insignificant. As incomes rise the deficit increases to 618 miles per month for those households with incomes over $25,000. With larger allocations the deficits shrink for all income classes, most dramatically for the upper income households for whom an increase in the ration per vehicle is multiplied by more vehicles per household.

With the "per person" plan lower income households fare better. An allocation of 20.7 gallons per person is equivalent, in distributing the total supply, to 40 gallons per vehicle. Low income households have a mileage surplus of 257 miles per month. This decreases to a deficit of 968 miles per month for households with an income of $25,000 dollars or more. In comparing the two plans, it is apparent that households with incomes of less than $15,000 benefit relative to others with a "per person" plan. They need not curtail their driving and may sell their coupons on the "white market." Higher income families are more constrained by the "per person" allocation than the "per vehicle" plan. As noted above the more suitable measure for a "per person" scheme is number of licensed drivers (unavailable here). As such the "per person" calculation is probably an upper bound on the distributional benefits available from a "per licensed driver" plan.

Additional breakdowns consider the differential effects of the two plans by race of the households and by location in the metropolitan area. Table 2 shows that a "per vehicle" plan does not affect blacks significantly differently from whites except at fairly high allocations. The "per person" allocation, on the other hand, is more favorable to blacks. With 25.9 gallons per person, the average black household has a 53 mile per month surplus; the average white household is in deficit 367 miles. Table 3 shows how a "per person" allocation process favors the inner city areas relative to the suburbs.

The data set allows the separation of work and nonwork trips. One measure of the security of any rationing plan is the extent to which worktrips (the demand for vehicle is presumably inelastic in the short run) are constrained. Here worktrip mileage is divided by mileage estimated with the rationing plan. With 50 gallons per vehicle inner city households devote 56.4 percent of their estimated mileage to worktrips (see Table 4). Suburban residents devote 47.9 percent. This is contrasted with 36.8 percent for inner city residents and 71.3 percent for suburban residents under the equivalent "per person" allocation.

Table 5 examines the deficit or surplus in gallons of gasoline, the coupons for which can be sold on the market. Consider the 50 gallon per vehicle allocation. Low-income households in general receive an income transfer. It is thought that coupons might sell on the white market for one to two dollars, so assuming households have cut nonwork trips by 15 percent, low-income households may in general, earn $5 to $10 per month for their coupons. Households with between $21,000 and $25,000 income fare worst, having to buy coupons for approximately 37 gallons of gas.

The spread is significantly larger with a "per person" plan. The lowest income households can sell coupons for approximately 36 gallons of gas--the highest income households must purchase coupons for 68 gallons. This is a substantial redistribution of income among income groups and, as noted in the theoretical section, will lead to new equilibrium values in a long-run consumer choice model.

Table 6 shows the distribution of gasoline deficits or surpluses by portion of the metropolitan area. At low "per vehicle" allocations the inner city residents area slightly better off. At high "per vehicle" allocations suburban residents do better. On a "per person" allocation inner city residents benefit substantially relative to others in the metropolitan area.

Conclusions

This paper shows how a data set on individual household behavior can be used to measure the distribution and magnitude of effects from the implementation of a gasoline rationing plan. Through a set of simple statistical groupings these effects can be measured by income level, location of residence, and race. The results are intuitive and show that a "per person" allocative plan is more redistributive in nature than is a "per vehicle" plan. To the extent that the inner city households have more persons per vehicle, they are better off with a per person allocation than households in outlying areas. Many other analyses are possible and will be explored in subsequent papers.

REFERENCES

(1) Goodman, Allen C., "Household Production, Trip Generation and Urban Spatial Structure," processed 1979.

(2) Tobin, James, "A Survey of the Theory of Rationing," Econometrica 20 (October, 1952): 521-553

(3) U.S. Department of Energy, "Standby Gasoline Rationing Plan," National Technical Information Service, 1979.

TABLES OF TABLES

TABLE 1. MILEAGE DEFICIT OR SURPLUS BY INCOME AND ALLOCATION PROCEDURE (N=782)

TABLE 2. MILEAGE DEFICIT OR SURPLUS BY RACE AND PROCEDURE (N=954)

TABLE 3. MILEAGE DEFICIT OR SURPLUS BY LOCATION AND PROCEDURE (N=965)

TABLE 4. WORKTRIP MILEAGE AS A PERCENTAGE OF POSSIBLE MILEAGE BY LOCATION a/

TABLE 5. GASOLINE DEFICIT OR SURPLUS BY INCOME AND ALLOCATION PROCEDURE bl&AP a/

TABLE 6. GASOLINE DERICIT OR SURPLUS BY LOCATION

TABLE 1. MILEAGE DEFICIT OR SURPLUS BY INCOME AND ALLOCATION PROCEDURE (N=782)

Income	40/vehicle	50/vehicle	60/vehicle	N_i
0-5	5.56	34.96	64.34	130
5-10	-141.99	-86.02	-30.15	160
10-15	-400.10	-287.84	-175.03	142
15-21	-539.69	-389.69	-239.67	142
21-25	-601.49	-424.27	-246.90	71
25---	-618.35	-358.38	-98.35	137
MEAN	-361.72	-236.12	-110.47	
F	8.485 a/	4.176 a/	1.754	
	20.7/person	25.9/person	31.1/person	
0-5	256.70	349.44	442.17	130
5-10	65.77	173.55	281.26	160
10-15	-361.51	-244.54	-107.08	142
15-21	-625.44	-495.24	-366.01	142
21-25	-771.90	-635.66	-498.64	71
25---	-967.57	-792.82	-617.58	137
MEAN	-362.68	-237.45	-111.95	
F	25.27	22.14 a/	19.15 a/	

a/ Indicates that means of categories differ at 1% significance level.

TABLE 2. MILEAGE DEFICIT OR SURPLUS BY RACE AND PROCEDURE (N=954)

Race	40/vehicle	50/vehicle	60/vehicle	N_i
White	-365.69	-211.29	-56.95	621
Black	-297.78	-226.77	-155.43	333
t	.97	.22	1.39	
	20.7/person	25.9/person	31.1/person	
White	-490.01	-366.61	-243.23	621
Black	-72.98	52.93	179.49	333
t	5.35 a/	4.88 a/	5.39 a/	

a/ Indicates that means differ at 1% significance level.

TABLE 3. MILEAGE DEFICIT OR SURPLUS BY LOCATION AND PROCEDURE (N=965)

Location	40/vehicle	50/vehicle	60/vehicle	N_i
Inner	-273.75	-192.83	-111.84	387
Outer	-313.66	-201.84	-89.97	263
Outside	-453.52	-263.29	-72.99	315
F	20.7/person	25.9/person	31.1/person	
Inner	-100.12	22.82	146.02	387
Outer	-279.65	-158.91	-38.39	263
Outside	-695.71	-565.87	-435.53	315
F	24.53 a/	23.81 a/	22.91 a/	

a/ Indicates that means differ at 1% significance level.

TABLE 4. WORKTRIP MILEAGE AS A PERCENTAGE OF POSSIBLE MILEAGE BY LOCATION a/

	40/vehicle	50/vehicle	60/vehicle	N_i
Inner	70.49	56.35	46.96	197
Outer	61.13	49.07	41.00	187
Outside	59.90	47.89	39.90	187
MEAN	63.35	50.71	42.28	
F	.875	.863	.855	
	20.7/person	25.9/person	31.1/person	
Inner	46.01	36.78	30.61	387
Outer	55.03	44.11	36.83	263
Outside	89.16	71.32	59.39	315
MEAN	62.56	50.05	41.70	
F	11.84 b/	11.85 b/	11.84	

---

a/ Number of observations differ because households with zero vehicles are excluded from "per vehicle" percentages.

b/ Indicates that means differ at 1% significance level. F-tests vary due to rounding procedures.

TABLE 5. GASOLINE DEFICIT OR SURPLUS BY INCOME AND ALLOCATION PROCEDURE bl&AP a/

Income	40/vehicle		50/vehicle		60/vehicle	
	A	B	A	B	A	B
0-5	.96	1.92	3.90	4.86	6.84	7.80
5-10	-15.68	-11.22	-10.23	-5.77	-4.78	-.32
10-15	-42.14	-33.68	-31.15	-22.69	-20.17	-11.70
15-21	-58.97	-47.24	-44.55	-32.82	-30.12	-18.40
21-25	-67.51	-55.28	-49.40	-37.17	-31.29	-19.06
25---	-65.96	-50.45	-41.01	-25.50	-16.06	-.55
MEAN	-39.09	-30.53	-26.86	-18.29	-14.63	-6.06
F	9.174 b/	8.004 b	5.061 b/	3.832 b/	2.429c/	1.708

Income	20.7/person		25.9/person		31.1/person	
	A	B	A	B	A	B
0-5	26.15	27.11	35.43	36.39	44.71	45.67
5-10	5.47	9.93	16.26	20.73	27.05	37.52
10-15	-39.43	-30.97	-27.72	-19.25	-16.00	-7.54
15-21	-66.22	-54.50	-53.55	-41.83	-40.88	-29.16
21-25	-83.98	-71.76	-69.92	-57.70	-55.86	-43.63
25---	-100.33	-84.82	-83.89	-68.39	-67.46	-51.95
MEAN	-38.92	-30.35	-26.59	-18.02	-14.25	-5.69
F	24.57 b/	24.43 b/	22.11 b/	22.52 b/	19.72 b/	19.72b/

a/ Allocation A = No decrease in non-work mileage; Allocation B = 15% decrease in non-work mileage.

b/ Indicates that means differ at 1% significance level.

c/ Indicates that means differ at 5% significance level.

TABLE 6. GASOLINE DEFICIT OR SURPLUS BY LOCATION

	40		50		60	
	A	B	A	B	A	B
Inner	-29.25	-23.41	-21.46	-15.63	-13.67	-7.84
Outer	-30.85	-23.60	-20.13	-12.87	-9.40	-2.15
Outside	-51.70	-39.27	-32.95	-20.51	-14.19	-1.76
MEAN	-37.01	-28.64	-24.85	-16.47	-12.68	-4.30
F	4.172	2.898	1.304	.491	.165	.445

	20.7		25.9		31.1	
Inner	-11.83	-6.00	.37	6.20	12.57	18.40
Outer	-26.99	-19.74	-15.24	-7.99	-3.50	3.75
Outside	-75.73	-63.30	-62.92	-50.49	-50.11	-37.68
MEAN	-36.82	-28.45	-24.55	-16.17	-12.27	-3.90
F	25.21	26.32	24.70	25.36	24.07	24.85

Ms. **Mikulski**. I note that the acronym for your agency is ERA. I hope that you have better success than the godmother of that acronym.

I must say that I have been very impressed with your straightforwardness and candor today. When I came it was with a certain even bellicose attitude, because of a rather dismal and frustrating history that I have had with the Department of Energy.

I have been impressed in listening to you today.

I would like to move on to the concerns that bring me to the committee.

I was the sponsor of an amendment in this committee, in the full comittee, that asked that special priority and attention be given to allocation on the basis of licensed drivers rather than vehicles. And I think if you would take a look at section 102-B in the legislative history of the gas rationing plan, you would note that that was the situation.

I am an advocate of distribution on the basis of licensed drivers. In fact, there was a compromise position on my part. I wanted to give gas rationing stamps to everybody over 18 and create a white market, if you will.

Now, my question to you, as I note on page 5 of your testimony you say that you have an open mind on the issue. But second, the direction that you seem to be going is to go back to the old vehicle distribution approach.

Could you tell me what is exactly the status of your thinking on this subject; and second, why section 102-B seems to be ignored.

Ms. **Rollins**. Well, my thinking on the matter, quite honestly, once again, changes almost every day.

I think this is one of the biggest problems the Department has had to grapple with. I know, Congresswoman, of your position last year, and I was here when you did speak most forcefully in favor of, if you will, entitlements to licensed drivers. And every time someone speaks of that most forcefully, I hear it.

I am concerned about the perception of Americans in that the people who seem to support, who violently support, if you will, allotments to licensed drivers, have a preconceived notion that more equity will be accomplished in this way. I am from North Jersey. And it tends to be city folk who think that way.

When you examine the data, you recognize, as I say in my formal testimony, that there is some good and some bad either way you go.

I am especially convinced that the disparity within States as between urban and rural dwellers is settled more easily through entitlements to registered vehicle owners.

Ms. **Mikulski**. Ms. Rollins, if I may just interject. Rather than, for example, me restating my arguments based on need regarding the good guy who conserves and might own one car, could you share with me what will be the criteria of the Department in making the final decision in terms of allocation? I welcome the openness of your thinking on this. But ultimately you must have a set of criteria by which you will make a decision. And I just wonder upon what criteria will that be made.

Ms. **Rollins**. All right. Harkening back to objectives specified in the statute, first of all is an attempt to provide equity. That is about as general as anything you can think of. We must also try to satisfy, if you will, the needs of the most people in either of two systems. Quite honestly and openly again it is the question of administrative ease.

Ms. **Mikulski.** If I could interject again at this point. I have been in contact with my State Department of Motor Vehicles as to exactly the issue which you are talking about, in terms of administrative ease. They inform me that the Department of Energy has not, they feel, really been in contact with State Departments of Motor Vehicles, to talk about what capacity and capability they have in some type of mobilization effort, identification effort, or whatever. It seems that States vary. Even in the utilization of computer technology in this area there doesn't seem to be necessarily uniform classifications. For example, four-cylinder cars versus six-cylinder, do you get something if you have four cylinders versus six cylinders.

Mr. **Dingell.** The time of the gentlewoman has expired. The witness may respond to the question.

Ms. **Rollins.** Perhaps we have failed with Maryland. But I personally have tried with at least 15 or 16 States. Staff I think has made an even more valiant effort in dealing not so much in the public forum with State vehicle directors of motor vehicles, but have actually talked to them. We are aware of the disparity of the records. And earlier I discussed those disparities that exist with both files, both drivers licenses and registered vehicle owners.

I think that is about as much as I want to say.

Ms. **Mikulski.** Well, Ms. Rollins, thank you very much.

I would like to submit to you a study done by Johns Hopkins Metropolitan Center on the impact of both plans, both methods, on Baltimore, for you to review. Also a consumer study, if I may.

In conclusion, I would like to thank you for taking into consideration social service and humanitarian needs. I was particularly concerned with programs like Meals on Wheels and so on.

Thank you very much.

Ms. **Rollins.** Thank you. I will be pleased to receive and review the studies.

Mr. **Dingell.** The time of the gentlewoman has expired. The chair recognizes now the gentleman from Washington, Mr. Swift.

Mr. **Swift.** Thank you, Mr. Chairman.

Ms. Rollins, having sat through almost all of the hearings this committee held on this some time ago and hearing almost everybody in the world come before us and say all they really want is a fair advantage, I understand the kind of problem you have.

Further, I recognize that the Congress has positioned itself in a delightful position, namely, asking you to make all the tough decisions and we reserve the right to criticize whatever you do.

I am glad there are people that are willing to undertake that kind of a tough problem.

I want to address myself to one ambiguity, or at least something that I need clarification on.

In section 570.32 of the plan entitled "Farming" that insures adequate coupons for off-highway vehicles and equipment used in agricultural production of food and fiber. The very next section, .33, of the plan, is entitled "Off-Highway Vehicles." And it states that firms may apply for supplemental allotments for off-highway vehicles and that the DOE will establish eligibility requirements.

Can you explain the difference in those two sections in terms of the entitlement of the people who would qualify for the one as opposed to those that would qualify for the other?

Ms. ROLLINS. Another one of those tough decisions.

First of all, we could not through our staff efforts identify every firm that might have vehicles operating off-highway. So we created this category and hoped that they would all get to us in due course.

The thrust of your question really is does farming receive a higher priority than those other off-highway vehicles. And my answer is yes, sir.

Mr. SWIFT. Basically the first category under farming guarantees adequate——

Ms. ROLLINS. That is correct.

Mr. SWIFT. And the other one provides a mechanism——

Ms. ROLLINS. At least come in and we would then be forced again for these yet-to-be-developed guidelines to make some judgment about what percentage of a historic base period use would be accorded that firm.

Mr. SWIFT. Can you tell me into which of those two categories would fall commercial fishing?

Ms. ROLLINS. You ask me today and I would tell you the first, sir. And I would also tell you tomorrow and the day after. And I would tell somebody if you were not here the same thing.

Mr. SWIFT. Say that again.

Ms. ROLLINS. If you were not here, I would tell someone else who asked me the question the same thing.

Mr. SWIFT. But I didn't hear what you said.

Ms. ROLLINS. They would be in the first category.

Mr. SWIFT. They would be in the first category.

Ms. ROLLINS. That is correct.

Mr. SWIFT. On page 18 it says firms with significant gasoline requirements for off-highway vehicles, that is the definition, example, construction equipment operators and fishermen. Fisheries appear to be in the second section, .33.

Ms. ROLLINS. I am not sure of the document you are reading from. But I am convinced, sir, it is not the regulations. Having lawyers write the regulations and the public affairs people and somebody of good intention write a description means that we don't always track each other perfectly.

Mr. SWIFT. What you are assuring me—

Ms. ROLLINS. I am.

Mr. SWIFT [continuing.] Here for the record is that commercial fishery is guaranteed to be a part of agriculture as is essentially required under the regulations.

Ms. ROLLINS. Yes; I am stating that.

Mr. SWIFT. And any documents to the contrary are in error.

Ms. ROLLINS. That is correct.

Mr. SWIFT. I thank you very much. I am pleased with that. Thank you, Mr. Chairman.

Mr. DINGELL. The Chair thanks the gentleman.

The Chair recognizes now the gentleman from North Carolina, Mr. Broyhill.

The gentleman from New York, Mr. Ottinger.

The gentleman from Massachusetts, Mr. Markey, is recognized for 5 minutes.

Mr. MARKEY. Thank you, Mr. Chairman.

Senator Kennedy earlier this week proposed that we go immediately to a rationing system in this country. Do you have any comments on that? Can you give us your personal opinion of Senator Kennedy's recommendation. Should that be used as an alternative to increasing the gas tax by 50 cents or a dollar a gallon, or registering our men to go over to fight to defend the oil fields in Saudi Arabia, Iran, and Iraq?

Ms. ROLLINS. Were you here for my "rose garden" discussion?

Mr. MARKEY. I think I missed that. Can I get a wrap-up?

Ms. ROLLINS. Yes. I made a comment earlier that in writing one of these public pieces to describe the rationing plan in our history, in directing that this thing be done, I wrote an outline, and one of the sections in the outline said "This plan ain't no rose garden." Now, I meant that in reference to the song "I Never Promised You a Rose Garden."

Earlier this week Secretary Duncan indicated that he had had a meeting with the editorial board of a major newspaper and they discussed gasoline rationing. This editorial board seemed to be in favor of gasoline rationing now. He asked me what I thought of that. I said, well, if we could get a couple of members on that editorial board to come over to the ERA and work with the staff as they grapple with these tremendously awesome questions of equity and who gets what, I am sure we could turn that board around in a couple of days.

I make the same offer and hope that you will proffer it to the Senator, because it is not a simple, easy fix. This is probably one of the most difficult things any of us here has ever had to do.

Mr. MARKEY. I guess what the Senator is doing is contrasting the equity of gas rationing with the equity of drafting kids out of Harlem and Watts and Roxbury, and out of the lower economic classes, and deciding then who lives and who dies and who serves in San Francisco and who stays in college. Those are really tough equity questions as well; more difficult, as a matter of fact.

I am not saying it is an easy task.

How long do you think it is going to take for you to have the preimplementation steps finished so that you might have some kind of plan which could be implemented if the need arose and we decided as a society that this might be a step we might want to take in lieu of some other more drastic step that might have even more profound effects upon our society?

Ms. ROLLINS. First, I am forced to comment that I have a 19-year-old son who is a sophomore in Boston College. I am certainly sensitive as a parent and as a citizen to the whole question of the need to have at least registration for the draft. I am as a parent not comfortable with it. As an American citizen I applaud it. And I don't believe that these two questions attach to each other as closely as you or others would think. And I say that not glibly, nor without thought, because it impacts tremendously on my personal life.

Now, regarding your question of how soon. I can talk to you about business as usual, I can talk to you about the middle course. But I want to talk to you about the fast track.

What we have said and what staff has assured me after a summer of thinking it through carefully is that the best we could do in an emergency was 7 to 12 months. Now, that is the best we could do, assuming no extraordinary efforts were used to support the program. And I earlier today discussed the kinds of extraordinary efforts I thought it would take to get that implementation timetable compressed.

It of course always includes money. It also includes extraordinary contracting authority, which is not normally nor should normally be accorded to government. And an infusion of people.

Mr. Markey. So you generally believe that this is not an option which we ought to consider seriously at this point, the implementation of a rationing plan upon the country, because of its logistical difficulty and because of your own personal experience with the equitable problems involved in its implementation.

Ms. Rollins. I describe this in another way, too: the tremendous job it would take to implement it, even if we had decided all the equity questions fairly. I describe this as a system larger than the social security system, larger than anything I have ever had to grapple with before. We have described this plan, as the Congress has, as a plan that is to be used in an extraordinary occurrence, that of a shortfall of 20 percent or upon the finding of the President, if he wants to come in and get the permission of the Congress for something less than that.

To use this plan under any other circumstances I believe would be folly.

Mr. Markey. In the area of the white market, looking at the potential for business interests to come in and use tax provisions to unfairly distort that market so that working class men and women might not indeed be able to go out and compete for that discretionary fuel on the market; they might indeed have a right but no remedy. They might not have the opportunity, because business interests, using tax provisions, might be put in an unfair competitive position to be able to take advantage of that white market.

Have you looked at that, to try to build in some protections that make sure that the average citizen that needs this discretionary oil might not be put in a position where he could not get it?

Ms. Rollins. We have looked at it. I think we address it in two ways. One is the State ration reserve, where hardship needs would include some income determination. The other involves the coupon buy-sell program. We have considered very carefully the impact of adjustages that large firms might have in the market for coupons. We are asking for some flexibility which would permit the Department of Energy to also be a buyer and a participant in that exchange market.

So the answer is yes, we have, and I hope we can address it.

Mr. Markey. You think you have addressed it.

Ms. Rollins. Well, I said I hope we can address it adequately. I am not yet certain that we have completely.

Mr. Markey. You are talking about the State set-aside. What are the other protections you have built in?

Ms. ROLLINS. Well, State ration reserves, if you will. And then I believe we can accord some kind of flexibility if you will to the market place for that exchange, just by virtue of the fact that both the DOE and the States in the current proposal would have an opportunity to move into the system and affect both the movement of supply and also price as a buyer.

Mr. MARKEY. Thank you, Mr. Chairman.

Mr. DINGELL. The time of the gentleman has expired.

The Chair recognizes now the gentleman from Ohio, Mr. Brown.

Mr. BROWN. Thank you very much, Mr. Chairman.

First as a housekeeping matter I would like to ask that at the opening of this session there be inserted in the record an article by Don McLeod of the AP from the Indianapolis Star of September 2, 1979, entitled "Two Gallons a Week, Maybe. World War II Rationing—1979 Crisis Compared."

Mr. DINGELL. Without objection, it is so ordered.

Mr. BROWN. I just observe, Mr. Chairman, in the article there is a caption under a picture that states, "President Franklin D. Roosevelt curbed his own travel to set an example in wartime, although about 200 members of Congress demanded, and got, unlimited access to gasoline." Just to show you my fairness.

[The article referred to follows:]

[From the Indianapolis Star, September 2, 1979]

TWO GALLONS A WEEK—MAYBE: WWII RATIONING, 1979 CRISIS COMPARED

(By Don McLeod)

WASHINGTON.—In those days, nearly 40 years ago, when people spotted a gasoline tanker truck wending its ways through city streets, motorists would form a line, sometimes a mile long, and follow it to its destination.

That was World War II. Today we have what President Carter calls the moral equivalent of war. He and the late Franklin D. Roosevelt faced the same problem—how to mobilize an energy-dependent people to solve an energy crisis.

In World War II, if you didn't have a war job, or a medical degree or some other exemption, you got two gallons of gasoline a week, maybe. If you parked outside a theater, you could be turned in for joyriding and your ration books were forfeited.

Bicycles were rationed and you could buy only two pairs of shoes a year. Tires? Forget it.

But President Carter shares one of President Roosevelt's biggest problems—breaking up the romance between the American and his car. There are other parallels—the same doubt and suspicion, business reluctance. Congressional wariness, costs, taxes, bureaucracy.

In World War II, for the first time, Americans were told they would have to change their lifestyle, make do with less. Just about everything went to war—mon's nylons, dad's garden hose. Energy was just part of it. There were other shortages: tobacco, sugar, ice cream, meat, all foodstuffs. Eventually, 40 percent of the country's vegetables were produced in backyard Victory Gardens.

Travel? Impossible. You couldn't drive, needed a priority for a plane ticket. No express buses. You stood in line for hours for a train ticket and, likely, all the way to Florida or wherever.

But even in wartime, many citizens took the restrictions and regulations grudgingly. Everyone had a bagful of excuses for more gasoline, more meat and a private phone.

World War II was the best thing to happen to hijackers since Prohibition, and the black market boomed. Counterfeiting ration stamps was such a prosperous operation that the mobs took it over.

In 1943, when the war was entering a critical stage, the government banned all pleasure driving to conserve fuel. But the public uproar was so great, it was revoked before the year was out—at the very moment the Allies were stocking up for the Normandy invasion.

When gasoline rationing began on the East Coast in 1942 because of tanker losses to German submarines, no fewer than—Congressmen demanded and got "X" priorities, allowing themselves unlimited gasoline.

Although rationing was necessary for the whole country to conserve fuel and rubber, Mr. Roosevelt delayed imposing it until after the 1942 elections, almost a year after Pearl Harbor.

Leon Henderson, the director of the Office of Price Stabilization who drew up the rationing plan, became the most unpopular man in America and was forced out of office.

Mr. Roosevelt got practically nothing out of Congress in the way of preparedness before Pearl Harbor. Even after the attack it took a full year to get the first war finance tax bill passed. Small wonder Mr. Carter is having trouble getting standby rationing authority and a windfall profits tax out of a peacetime Congress.

Mr. Carter has proposed three new agencies to manage his war. Mr. Roosevelt created more than the alphabet could bear.

The war production Board was the big one. The WPB has to forge a reluctant civilian economy, still recovering from the Great Depression, into a mighty war machine.

Forty years ago, violent events began in Europe which took America to war, and with war came a severe oil and gasoline shortage. Herewith is a look backward: two Presidents, four decades apart, and how they faced a crisis with balky business and a recalcitrant citizenry.

For the automobile industry 1941 was the first boom year since the crash of 1929. It wanted to sell all the civilian cars it could. The same was true for other businessmen. Just when people were starting to buy. Uncle Sam was asking them it stop.

It was Henry L. Stimson, Mr. Roosevelt's Republican secretary of war, who finally hit on the secret formula for cooperation.

"If you are going to try to go to war, or prepare for war, in a capitalist country," Stimson said, "you've got to let business make money out of the process or business won't work."

It's the same argument today. Let oilmen make money and they will provide the energy we need. Mr. Carter has started a phased decontrol of domestic petroleum prices which the oil industry says will encourage exploration and production.

Mr. Carter also has called for an Energy Mobilation Board, the key agency in his plan, which he says, "like the War Production Board in World War II, will have the responsibility and authority to cut through the red tape, the delays and the endless roadblocks to completing key energy projects."

The three-member board Mr. Carter proposes would have the authority to set deadlines for federal, state and local action on energy proposals and could waive procedural steps if it feels speed is in the national interest. Other than that, it would rely on jawboning, moral persuasion or public embarrassment to get the job done.

The WPB—with 15,200 employees and hundreds of sub-agencies and committees—was virtually all-powerful. It could close plants, build them, set priorities, ration and distribute raw materials, manage labor supply, set production quotas for war goods and limit manufacuture of civilian items.

To goad industry into war production, the WPB stopped the manufacture of many civilian goods. The last private automobie rolled off Ford's assembly line on Feb. 10, 1942. By May, production had been stopped on more than 400 different metal items.

With industry reluctant to retool for war, the government built new plants and leased them to private firms. It also assured industry that war work would be profitable, through cost-plus contracts which guaranteed a set profit on top of production costs. The government took all the risks.

The results were spectacular. By 1943 corporate profits exceeded the last pre-Depression boom year of 1929. Grumman Aircraft's business rose from $19 million in 1940 to $390 million in 1943. Productivity soard and industrial production increased 96 percent.

American industry turned out more than 300,000 military aircraft during the war years, 5,200 merchant ships, more than 87,000 warships, 100,000 tanks, 2.5 million trucks and 44 billion rounds of small arms ammunition.

When the war reached its peak in 1944. American industry, which had started from scratch, was outproducing the enemy in munitions by better than 50 percent.

And despite the invitation to greed built into cost-plus contracting, efficiency actually improved dramatically. The cost of a Browning machine gun was cut from $667 each to $141 through the efficiency of mass production technology.

The biggest problem though, was rubber. The Japanese seized the source of 90 percent of the world's rubber supply in the first three months of the war.

Mr. Roosevelt turned to a plan similar to Mr. Carter's proposal for the current fuel shortage, a crash program of synthetics.

Under the influence of the farm bloc, Congress adopted a program to make rubber from grain alcohol, although it would be more expensive than the petroleum method.

Finally, Mr. Roosevelt vetoed the Congressional plan and moved ahead with petroleum-based synthetics. The government built the plants, and by 1944 they were producing 80 percent of the 800,000 tons of rubber consumed by the war effort.

Mr. Carter has called for an Energy Security Corporation, with authority to issue up to $5 billion in bonds, to start a similar crash program to produce synthetic fuels. Four decades after Mr. Roosevelt, he is running into the same objections.

Rationing also was a big part of the rubber war because less driving meant longer-lasting tires. But it became a critical part of the fuel solution. Mr. Roosevelt also set the national speed limit at 35 miles per hour, while today's driver scoff at 55.

Heating fuel was another problem. While Mr. Carter has ordered thermostat adjustments in public buildings to the howls of an air conditioned generation. Mr. Roosevelt had to cut back home heating fuel.

An elaborate formula cut the average home's supply by one-third while aiming to keep temperatures at 65 degrees. As now, hardest hit were the coastal areas heavily dependent on oil tankers, but coal and even firewood also were rationed.

Unlike Mr. Carter, however, Mr. Roosevelt did have the advantage of abundant oil reserves. And with government encouragement, the industry increased production by 25 percent between 1940 and 1944.

But all of this cost money, and lots of it. In the first year of the war the Treasury was pumping out $300 million a day. A good estimate is that World War II cost more than $300 billion.

President Carter's energy program is priced at $142 billion over 10 years, less than a fourth of the wartime spending rate, not even allowing for inflation since then.

Financing the war took massive taxation. The excess profits tax slapped on industry reached 90 percent, compared to the 50 percent Mr. Carter asked for the energy war.

The income tax became virtually universal for the first time, and withholding was invented. On top of that there was a graduated surtax ranging as high as 82 percent, and an across-the-board "Victory Tax" of 5 percent.

Still, taxes paid for only about 40 percent of the war costs. For the most part it was fought with massive deficit spending. The national debt shot from $43 billion to $269 billion. At the same time personal income soared. Wages rose about 47 percent during the war, and kept ahead of prices. Unemployment was wiped out.

To head off inflation Mr. Roosevelt's war agencies regulated wages and prices, rationed or banned products to prevent a runaway market, encouraged savings and taxed heavily.

Mr. Carter must organize his war in the midst of a "taxpayers' revolt," raging inflation and resurging unemployment. He has pledged not to invoke wage-price freezes, and political pressures probably will hold him to his word.

The recent gasoline lines showed the American motorist as unwilling as ever to relinquish his right to drive, while the country is on the verge of becoming as dependent on foreign petroleum as it was on imported rubber in 1941.

Many of Mr. Roosevelt's weapons are, therefore, denied Mr. Carter, in addition to the inevitable partisan and special interest conflicts which plagued FDR. Even with bombs falling Mr. Roosevelt had a hard time pulling the country together. Can Mr. Carter do it without a Pearl Harbor?

Mr. Brown. Now, Ms. Rollins, first let me say to you I am delighted that a woman is heading this program. I think it makes it much more difficult to criticize.

Ms. Rollins. That doesn't seem to be the case.

Mr. Brown. And only because women tend to be more flexible and sometimes rational about difficult problems than some of us men are, witness the fact that the Congress made up mostly of men has a tough time with difficult problems.

One of the difficult problems I think you have, however, in the program that I have seen presented to us, and it is not dissimilar, I would observe, from the program that came to us originally, is the so-called white market enabling those not needing coupons to sell them at whatever price to those in greater need.

My question is how would the white market be managed by the DOE? Will the DOE attempt to issue coupons to reduce their market value from time to time if the DOE deems this to be necessary? That almost puts the DOE in the function of a Federal Reserve Board, a Paul Volker kind of responsibility.

How can such a management of the coupon market be coordinated with the allocation system of the gasoline itself?

Now, let me be specific about an example.

Florida, for instance, is a high tourist attraction location. You have two things happening in that market. One is the arrival of a lot of tourists in their automobiles hungry for gasoline, and the departure. And sometimes that is a whimsical occurrence, depending on the weather in Ohio. When it begins to cloud up about the first of December, I have friends who say, "It looks like we are going to have cold weather. I think I'll leave a week early." So the timing of that is very difficult, and it may not relate to the availability of the gasoline in Florida.

Vice versa, they may decide to leave later because it looks like we are in for early planting in Ohio and the availability of gasoline may be quite large.

I think it is a very difficult problem. And I would like to know how you are going to handle it.

Ms. **Rollins**. I discussed this earlier, Congressman Brown. We recognized——

Mr. **Brown**. I don't want you to repeat what you said because I have been told what you said. Then if you can address the problem how the allocation and the coupons can be coordinated?

Ms. **Rollins**. All right. Well, first of all, I believe that the allocation of the gasoline allocation system that we have today just is inadequate to be set side by side with a rationing plan and adjustments have to be made and we intend to make them.

The question regarding the white market is one that I have attempted to address here earlier this morning and I will attempt to do it again.

So suffice to say I am aware of the fact that we propose to put the Department in a business that it has never been in, and I liken it to the Commodities Future Exchange Commission.

We have the forethought to give ourselves and the States a right in the proposed plan to be buyers and sellers of the coupons. We think that that is one of the ways to deflect, if you will, both problems regarding price and also problems regarding supply.

I also said earlier we have a lot to learn about this and we have to very quickly learn it. I consider it a tremendous responsibility to be dictating the management of this, if you will, second currency.

Mr. **Brown**. When the Congress passed the Emergency Energy Conservation Act of 1979 the procedures for congressional review were revised, I might say, to allow the new rationing plan an easier course through Congress. As you know, it would take both Houses of Congress to vote down the plan by margins large enough to sustain a Presidential veto of the plan that he proposed.

In addition, once the plan is formally submitted to Congress no amendments can be made. So I understand this is sort of informal submission that we have gotten and that we can recommend modifications and it can be modified, but the modifications that are recommended, if they are accepted, must occur before the formal transmittal to Congress.

Will the DOE make public the alteration to the proposed plan by Secretary Duncan or the White House at the time it is submitted formally? Will we tend to get frozen in where the President can only veto it——

Ms. **Rollins**. I may not understand you perfectly, so let me respond to what I think.

Mr. **Brown**. I guess, to shorten the question, how do we modify the plan if we don't like it, in view of the fact that your answers, with all due respect, are somewhat vague about how we are going to work out the details?

Ms. **Rollins**. You missed my earlier speech and I admitted that they are vague and it is just the position I find myself in. I have to get the plan approved before I get the program approved.

Mr. **Brown**. I am for a uniform draft for everybody, boys and girls and all kinds of possibilities, military, social workers. I am a little vague about the details myself and the cost and a couple of other things, but I am not administering the plan, I am only telling you what I am kind of for. In the abstract, you are going to have to administer the plan, so my question is how do we change it?

Ms. **Rollins**. The way you change it, this dialog ought to continue, to the extent that you think I have been too vague on some points, I think you ought to take me down further either here or drag me up and take me down and make us as a staff give you some answers you are comfortable with. I certainly will tell you whether plans or proposals you have made to me are ones that this administration can accept. That dialog will take place between now and the week the President prepares to send this plan up.

If last year's experience is any guide, there will be not only Ms. Rollins here but people representing the White House, the public, somebody from Stu Eisenstat's office.

What I am trying to point out to you, this is the beginning round of this lovely opportunity to negotiate and I am available and will continue to be available. To the extent you are not satisfied with an answer, I really want the opportunity to take your suggestion and bring back to you what I think will be the counter-proposal I make to the administration.

Mr. **Brown**. Do you want a formal suggestion from this committee?

Ms. **Rollins**. Yes, I do.

Mr. **Brown**. Mr. Chairman, I see your gavel is up and I only want to conclude with this remark, and it does not require a response. But I must say I have not been notably successful in getting the DOE to alter its plans once they get pen to paper, including what you already concede is a plan that has a lot of trouble, and that is the allocation plan.

I am hearing, as I think other members of the committee are, as I know other Members of Congress are, from service station operators who say that they can't get the DOE to give serious attention to the fact that their allocation of the amount of gasoline they are getting from their branded oil company suppliers are unfair. I must say I thought that was mostly a gimmick to get me to pledge my support for doing something about freezing all the current gasoline stationowners and operators into their economic position, until I had one case that I tried to pursue myself and the answer I got from DOE was a copy of the decision they had made, and my staff pursued it in my name and was told that that is the information we get and is all that we get. If we don't like it we can jump in the lake, in effect.

So I don't find it terribly responsive. I am going to have to pursue that merely as a matter of discipline, I guess, to the respondent so I can get some good answers.

Mr. DINGELL. Time has expired.

Mr. BROWN. I will certainly try to convey to you some thoughts personally.

Mr. DINGELL. The Chair is now going to recognize staff for questions. The Chair recognizes Mr. Schooler.

Mr. MOORHEAD. Could I ask one question?

Mr. DINGELL. The Chair will recognize the gentleman for one question.

Mr. MOORHEAD. I guess the area of greatest difficulty that I see in this whole plan is the fact that people who may not need gasoline and wouldn't use it are going to profit by the plan, and other people who absolutely have to have the gasoline for their work or for their travel or health care or many other things, may be having to pay more money for their gasoline than they really should be paying.

What I would like to ask you, there must be some justification for that. Do you feel that you are going to get people in that low use bracket cut even further, or do you think this is just a method of distribution of the gasoline? If it is the latter case, I think you could find a better way of doing it.

Ms. ROLLINS. Well, I am forced back into the philosophical question whether this is an allocation program or a conservation program.

I think by the time we get to a 20-percent shortfall all of the discretionary driving will be removed from our habits, from everybody's habits, we will just be driving to places where we have to go.

I view this emergency program as a program to, if you will, allocate the grief, I don't think your——

Mr. MOORHEAD. Won't it be more simpler if the Government would sell these coupons rather than giving a profit to the people that weren't going to be using the gasoline anyway and then going to be selling their coupons?

Ms. ROLLINS. It is a question we have been grappling with for a long time and we think that quite frankly to permit the marketplace to move rather than have the Government sell the coupons as a sort of tax is not the way to go with this plan.

Mr. DINGELL. Time of the gentleman has expired.

The Chair recognizes Mr. Schooler for questions.

Mr. SCHOOLER. Ms. Rollins, in your testimony you state that the rationing plan would require 17 to 21 months to implement but could be shortened to 7 to 12 months if sufficient resources and personnel are authorized.

First, what are the steps that have to be taken to reduce that number from 17 to 7 months; second, what is that 7 to 12 months comprised of?

Ms. **Rollins**. The most extraordinary problem in my view and one that takes the most time is the construction of this vehicle registration file or the construction of a driver's license file.

Mr. **Schooler**. How long would that take?

Ms. **Rollins**. We are told by the people who generally do that kind of work there is, of course, the beginning of vehicle registration file to simply help manufacturers with the recall of relatively few automobiles, but the time it would normally take to do a file, not a perfect file, but a respectable file, would be at least a year.

If you wanted, if you will, what they call a dirty file, that is a file that merely adopts the 35 systems that are now used by the Divisions of the Motor Vehicles at the State level that do have computerized systems, it could be done in 3 months. The difficulty there would be that none of the duplications, none of the errors that have been punched in could be researched or corrected, and perhaps more importantly, there are some 15 States whose current method of collecting data on a computerized system is not compatible to the plan that would be used by the majority, so there would have to be some separate system for, again a dirty system, and finally here are two States in the Union that do not use computerized information collecting for driver's licenses or registration of vehicles, so we would have to find a way to deal with those.

You get that compression but you lose in terms of equity and accuracy when you go for a 3-month file. The lead time on the coupons is something that might be compressed. Earlier discussions with the Treasury Department lead us to believe that we would need a 3- to 5-month leadtime to present the number of coupons that would be necessary to give us a cushion, if you will, for the first allocation, some 5 billion coupons.

The way to get around this, of course, is to use coupons that we now have stored in Colorado. There are about 4.5 billion coupons. The difficulty there is we are told that the problems that we discussed with you last year regarding the size of the coupons and the ease with which they might be used for unsavory purposes, such as putting them into the changers to get back change and the like, makes it not the best decision. If we were compressing we would probably go to using those coupons.

There is another difficulty there. The counters that are used by banks, if you will, to count money will not receive those coupons because, if you recall, they are a great deal smaller, so we can put those coupons into a banking system but it would be difficult for banks to accept them or any institution who is doing it and count them and return them back to the U.S. Government.

To go further, the other difficulty is with the checks themselves. The mailing of the checks is dependent upon, if you will, the information that is going to come out of the universal file. Assuming that the universal file is ready during the 1-year period, or in the 3-months period, if we were to use less than a perfect file, there is difficulty with arranging to check and double check the addresses and names of the people on the file that might be done by using telephone directories.

At any rate, to get a perfect file so that one would assure that at least some 90 percent of the American public were receiving their ration checks at the right location I am told would take a year. If you want to have a less perfect system and have 10 percent or greater than 10 percent of the American public scrambling around trying to get their checks, then you can reduce that time. I think I have described the three elements that take the most time and I have discussed some way in which one might compress the time.

Mr. **Schooler**. What are the "sufficient resources and personnel" that you are referring to that would reduce the preimplementation time?

Ms. **Rollins**. As I indicated earlier, simply because we have been on such an expedited schedule here I am not yet ready to present to the committee firm and definitive figures on either cost or personnel. They are not done nor have they cleared the required system that the administration establishes for what definitely turns out to be a budgetary request. When that information is available I will provide it to you.

But the discussion we have just had regarding the need to collect some universal file for information regarding registered vehicle owners or licensed drivers requires us to buy systems that are currently available. They are half systems, they are not full systems. This obviously would take us into some kind of contracting procedure that would, first of all, be sole source, simply because there are only two firms in the United States that collect this information. We would need some expedited procedure for contracting, some clear recognition that there was not the time nor the opportunity to wait for other firms to bid, simply because there are no other firms, in my recollection. If there are other firms, I hope that they will come forward.

Mr. **Schooler**. Let me get specific. Do you have a pending supplemental with respect to the gasoline rationing program?

Ms. **Rollins**. No, I have a pending supplemental which addresses the gasoline rationing plan which was rejected last year by the Congress.

Mr. **Schooler**. Are you no longer requesting those funds?

Ms. **Rollins**. The supplemental is certainly on the books at the moment. I am not through this discussion withdrawing it but I am putting you on notice that that supplemental contemplated the plan that was rejected last spring. Why? Because there was no plan before the administration when the budget supplement was drawn. There will be a need to come back to you with updated figures, as I have discussed earlier, which more honestly reflect the plan which will ultimately be forwarded to this body.

Mr. **Schooler**. Just so we are clear. First, with respect to the supplemental, I am not sure it is in the $40 million——

Ms. **Rollins**. $43 million is the supplemental.

Mr. **Schooler**. Are you suggesting that after revising the plan for this time around you would be requesting perhaps a different amount or a different kind of use for those funds?

Ms. **Rollins**. I am not suggesting it, I am telling you that that is clear.

Mr. **Schooler**. So for the time being you are not pursuing that supplemental?

Ms. ROLLINS. I am not in the business of pursuing the supplemental, I am telling you the supplement is before Congress, I am telling you it is not my responsibility to push that. That is sort of not in my bailiwick.

I am also telling you that what I know today leads me to understand clearly that that supplement is inappropriate, it does not address the proposal that is now before you, so, of course, we are going to have to come forward with new figures. Of course, there will be additional needs, the money will have to be used in different ways.

I will cite you an obvious example. In the plan that was rejected in the spring we had some modicum of responsibilities for States. The proposed plan involves State responsibility a great deal more. It is going to have some additional thought, of course, some additional funding for that.

Mr. SCHOOLER. With respect to the 1981 budget, the budget materials received by this subcommittee indicate something like $4 million in fiscal year 1981, making the assumption that the supplemental has been approved.

Are you suggesting that that number may also not truly reflect the needs with respect to this plan?

Ms. ROLLINS. Well, in that instance, with regard to the 1981 budget, I am not suggesting anything, because I haven't had an opportunity to take the step beyond understanding the pre-implementation figure is grossly off.

Mr. SCHOOLER. With respect to the timetable for implementing the plan, is it correct that your authority to ration would expire in October of 1981? Is that a correct reading of the statute?

Ms. ROLLINS. Yes; all of our Emergency Petroleum Allocation Act authorities expire in 1981.

Mr. SCHOOLER. Now, if I may go a little further here. Twelve months before from now would put us into 1981. If there is any slippage at all in the timetable for preimplementation, aren't we talking about having a plan which would be ready for perhaps several months the authority would expire? What does that lead you to suggest with regard to that deadline or that expiration of authority?

Ms. ROLLINS. Mr. Schooler, you found it very difficult to get me to suggest anything this morning and I am going to tell you right now I am not going to suggest with regard to your question here. I am simply going to tell you that, of course, the ERA and the Department itself has a number of decisions to make with regard to all of the authorities that are contained in the Emergency Petroleum Allocation Act. I do not believe this morning is the time to begin to address them. At another time more appropriate, we will.

Mr. DINGELL. Are you telling us then that probably not only will this committee of the Congress be called upon to review the question of extension of the rationing authorities as they approach their expiration date, but that they will also be called upon to review a number of authorities upon which those rationing authorities are bottomed, not the least of which is the Emergency Petroleum Allocation Act and some other statutes which may be necessary for the effective working of the rationing program. Is that right?

Ms. Rollins. That is correct, sir.

Mr. Dingell. Am I correct in my appreciation that a reading of the rationing authorities that have been vested in you by statute does not reveal anything other than that they are bottomed on other statutes, that is EPS, and that there is no inherent power conferred on DOE by the rationing statute to do the things which are necessary to carry out the entirety of the rationing plan?

If you don't want to answer that at this time and want to respond in writing to the question——

Ms. Rollins. Counsel would like very much to respond.

Mr. Dingell. It is important for our consideration of what we are going to do next year with regard to this matter.

Mr. Funk. In short, it is our belief that EPCA as amended by EECA does grant positive authority.

Mr. Dingell. Are you saying that the rationing statute does?

Mr. Funk. Yes sir, it does grant positive authority.

Mr. Dingell. That to do all things necessary to carry out a rationing plan, for example, to deal with the shift of supplies as between several suppliers and a purchaser, in the chain of distribution, to deal with this so that it is done at a fair price as opposed to a distorted price, either of which actions could divert a rationing plan into something which might be a great deal less than fair?

Mr. Funk. Mr. Chairman, I would say that it is our belief that, except as indicated in our proposed rationing plan, we believe that EPAA as amended by EECA has sufficient authority for everything in the proposal.

Mr. Dingell. We do not quarrel on that point. I agree that you have a sufficiency of authority under the composit of the three statutes, EPAA, EPCA, and the rationing statute. The question is however, when EPAA expires and the EECA expires at the end of September 1981, will you then be left without sufficient authority to carry out your rationing plan if the rationing statute is the only statute remaining to you?

Mr. Funk. Rationing without price controls would be a much different system, and the proposed system even envisaged price controls. The price control authority is in the EPAA. I think that is responsive to your question.

Mr. Dingell. But there are other powers that you are going to need. For example, the designation of who shall supply, designating area, designating things like refinery run, mixes and things of that sort? If those have expired, do you have in your rationing statute the authority to make those designations or to make those requirements on producers and refiners, or do you need additional authority?

Mr. Funk. I don't think at this time it would be appropriate for me to try and spell out in detail the exact parameters of EPCA as amended by EECA. I would be happy to do that in writing in response to the question.

[The following letter was received for the record:]

Department of Energy
Washington, D.C. 20585

AUG 21 1980

Honorable John D. Dingell
Chairman, Subcommittee on Energy and Power
Committee on Interstate and Foreign Commerce
House of Representatives
Washington, D.C. 20515

Dear Mr. Dingell:

During a hearing on January 31, 1980, at which the Administrator of the Economic Regulatory Administration appeared before the Subcommittee on Energy and Power, you posed a question regarding whether at the end of September 1981 there will remain sufficient authority to carry out the rationing plan if the rationing statute is the only statute remaining. You also asked whether there would be other powers needed, such as the authority to mandate refinery runs, refinery yields, etc.

All authority for rationing expires on September 30, 1981, the same date on which the Emergency Petroleum Allocation Act expires. Thus, legislative action will be required to extend the rationing authority. While in our view extension of the rationing authority found in the Energy Policy and Conservation Act, as amended by the Emergency Energy Conservation Act, would provide sufficient authority for a rationing program, including the allocation of gasoline and diesel oil throughout the distribution chain, it is apparent that a shortage of a magnitude to justify rationing might require Government actions beyond those contemplated in the rationing statutes. Such actions might include mandated refinery runs, refinery yields, inventory management, and the like. Regulatory action might also be advisable with respect to petroleum products other than gasoline and diesel fuel. Finally, limited price controls might be advisable.

As you are aware, the Department is currently studying the extent and nature of the authorities that might be desirable after September 1981. At the present time, however, the Department is not yet ready to specify what legislative action should be suggested. We will keep you and your committee informed as these studies develop.

Sincerely,

Lynn R. Coleman
General Counsel

Mr. **Dingell**. I have no quarrel with that. We would be happy to receive your answers to the questions. The reason for the questions is not to put you on the spot; we simply want to find out what the Congress and this committee are going to do when next year arrives and the time for the expiration of these statutes is at hand. We are going to have to address the question of whether or not we are going to have to give you additional authority so that your standby rationing authority will in fact work.

Mr. **Funk**. As Ms. Rollins has said, this is something both the administration and the Congress are going to have to think about in the next year.

Mr. **Dingell**. Thank you.

Mr. **Schooler**. Ms. Rollins, last year, during consideration of the rationing plan, the Congress was given a number of letters from people within the administration concerning reviews of various portions of the plan. Is it true that, these issues were reviewed again with respect to this plan, about farm uses?

Ms. **Rollins**. Believe it or not, this weekend I had pulled up for me all the letters that came in that 2-week period and reviewed them to try in my own mind to remember from the past what we had committed and more importantly, to also try to figure out what commitment I thought held beyond, if you will, the failure of the last plan.

Let me try and tell you what I think we committed to. I think we committed to do a number of things only if the plan that was before the Congress passed, and my recollection is, because I don't have those letters and I wrote numbers on them, one, we promised to go back and take a look at the equity question as regards driver's licenses and the registration but, of course, that was then incorporated in the act, so we were forced to do that in this round at any rate.

We promised to take a look at a number of inequities that I think have all been really addressed here today, so in my view, we have examined all of those questions, perhaps not as carefully as we would have been forced to examine them if we had been in the preimplementation starting last year. But I think we are not failing our commitment to examine all of the issues that were raised and discussed in those letters, save the question of licensed drivers versus registered vehicle owners, and we are doing that now because you have asked us to do it.

Mr. **Schooler**. I sense there were some changes, as you point out in your testimony, with regard to commercial uses?

Ms. **Rollins**. Yes, sir.

Mr. **Schooler**. Is that still being reviewed at the Department as far as determining the appropriate priorities and determining how much gasoline this involves?

Ms. **Rollins**. Yes; I think perhaps one of the points I have not made is that in my view none of the issues which I described to you today as still being open have been decided at the highest levels. The process, that is natural and probably does not need describing, but I will describe it, is that the ERA makes recommendations to the Office of the Secretary. The Deputy Secretary and the Secretary have an opportunity to then take our advice and also take the advice of others, both the policy shop and the general counsel, and then their recommendations go forward to the White House. So this negotiation, if you will, is still very much open.

Mr. FINNEGAN. You indicated that there are some letters that may never have been intended to be commitments to go beyond what was in the previous plan. I am sure a lot of ears perked up because of that statement. We would like to know what those letters are so we don't get hit with them later on, so we would be able to identify them.

Ms. ROLLINS. Why don't we agree that I will simply—I have got them in my briefcase from earlier in the week—I will pull them out and I think you and I ought to have a discussion and agree to whatever it was we think we did or didn't do. I would be pleased to do that this week.

Mr. FINNEGAN. All right.

Mr. DINGELL. Ms. Rollins, we have kept you here a long time. I just have a couple of questions. One very bitter question that faced the subcommittee and myself in the handling of earlier rationing plans on the floor involved the question of historic use concerning both regions of the country, and particular kinds of use, such as industrial users, truckers, and so forth. I assume that in the preparation of this, as you indicated, you are giving rather careful attention to historic use. Is that correct?

Ms. ROLLINS. Yes, Mr. Chairman, and what I have certainly to do under the guidance of both this subcomittee and after reading the conference report of the conferees and, therefore, the Congress, is that we take a close look at these issues and the standards for historic base use and the State level articulated for both the State conservation, I am sorry, the State conservation plan and the gasoline rationing plan, and so it is my view that the work that is now ongoing, really the negotiations between the State and if you will, the Office of Conservation, will be very useful to us as decisions and issues that are solved there will help us in our work.

Mr. DINGELL. I suppose the same pattern of historic uses will apply toward things like trucking industry and so forth?

Ms. ROLLINS. Yes.

Mr. DINGELL. They have expressed a great deal of concern about the fact there may be particular problems with regard to a fair allocation to that industry if due consideration is not given to historic uses. Am I correct in that appreciation?

Ms. ROLLINS. Yes; we appreciate it entirely.

Mr. DINGELL. The committee thanks you. You have been here a long time. You have been very patient. We thank you for your assistance.

The committee stands adjourned, pending the call of the Chair.

[The following letter was submitted for the January 31, 1980, record:]

AMERICAN HOSPITAL ASSOCIATION
444 NORTH CAPITOL STREET N.W. SUITE 500 WASHINGTON D.C. 20001   TELEPHONE 202-638-1
WASHINGTON OFFICE

January 31, 1980

Dear Representative:

On January 31 the Subcommittee on Energy and Power of the House Commerce Committee will receive testimony from the Department of Energy on the Administration's proposal for a standby program of gasoline rationing. The American Hospital Association (AHA), representing most of the nation's 7,000 hospitals, is concerned with the proposed plan, and we want to share our views and recommendations with you and request your assistance in seeking clarification and improvement by the Department of Energy in the proposed plan to assure the continued availability of essential medical services provided by hospitals and other health care institutions.

Our principal concern involves a question of the intent of Congress in mandating that protection of the public health be assured under any proposed rationing plan. The Emergency Energy Conservation Act of 1979 (P.L.96-102) requires that a standby rationing plan incorporate the priority considerations for fuel distribution set forth in Section 4(b)(1) of the Emergency Petroleum Allocation Act of 1973, among which was "protection of public health, safety, and welfare..." (emphasis added).

The AHA's principal concern with the proposed national gasoline rationing plan is that, as presently drafted, it does not contain sufficient detail to assure the continued availability of essential medical services. Specifically, we do not find in the plan any clear assurance that hospital employees and other health care personnel will be able to obtain the amounts of gasoline necessary for their transportation to and from work. Thus, we fear that the rationing plan, if implemented, could result in hospitals' being unable to maintain the staffing levels they need to meet their community obligation of making essential medical services available on a 24-hour basis.

Under Section 570.31, the proposed plan does include "emergency medical services" as one of the "emergency services" for which additional fuel will be alloted; however, the plan does not discuss the scope of health services or health personnel that might fit into this category. While additional information is provided on such emergency services as public transportation, mail delivery, and telecommunications services, no definition of the term "emergency medical services" is provided.

Discussions with Department of Energy personnel lead us to believe that the priority assigned to "emergency medical services" is equipment-rather than personnel-oriented; that is, the priority is intended to

assure the availability of gasoline for ambulances and other rescue vehicles rather than for the transportation needs of individual health care employees. However, we believe Congress' inclusion of "protection of public health..." as a priority objective of any rationing plan was intended to prevent a disruption of all essential medical services, not just emergency services.

While we agree that emergency equipment, such as ambulances, will need priority consideration, we also feel that the standby plan must attempt to anticipate the needs of health personnel who must drive to work. Because of the nature of their work, or for other valid reasons, many health care workers simply do not have an alternative to their personal automobile. For example: public transit may be neither an available nor safe alternative for night shift workers; health care employees in rural areas frequently live great distances from where they work and have no transportation alternatives; home health workers, because of the nature of their work, must have access to automobiles. These and other considerations make it likely—if not certain—that essential medical services would be disrupted if the proposed rationing plan were to become a reality.

Under the standby rationing plan, as presently drafted, it appears that a disruption of medical services could only be addressed after the fact through the time-consuming mechanism of individual employees applying for hardship consideration. We believe that sufficient evidence now exists that a disruption of essential medical services would occur under the proposed plan to justify inclusion in the final regulation of a provision addressing the transportation needs of health care personnel.

The American Hospital Association is interested in working with the Department of Energy to develop a fair and workable mechanism for addressing the transportation needs of health care employees. Initially, we would strongly recommend that, in the final regulation on the standby rationing plan, the term "emergency medical services" in Section 570.31 be changed to "essential medical services," and that the definition of this term include recognition of the gasoline requirements of health care workers who must drive to work.

Thank you for your consideration of this matter. We respectfully request that these views be included in the subcommittee's hearing record on this issue.

Sincerely,

Lee J Gehrig md

Lee J. Gehrig, M.D.
Senior Vice President

[Whereupon, at 2:30 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

1980 STANDBY GASOLINE RATIONING PLAN

MONDAY, JUNE 23, 1980

House of Representatives,
Subcommittee on Energy and Power,
Committee on Interstate and Foreign Commerce,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2123, Rayburn House Office Building, Hon. John D. Dingell, chairman, presiding.

Mr. Dingell. The subcommittee will come to order.

Today, we begin the first of 2 days of hearings on the subject of the administration's proposed standby gasoline rationing plan.

The Emergency Energy Conservation Act of 1979, which was enacted last November, required the President to transmit to Congress a standby rationing plan as soon as practicable. On June 12, the President transmitted his proposed plan.[1] The Congress under the law will have 30 calendar days of continuous session to review the plan. The review period is scheduled to expire on July 30. Unless both Houses of Congress pass the joint resolution of disapproval, the plan will be considered approved and available for use by the President during emergencies.

The law does not permit the President to implement rationing unless he finds there is a 20-percent shortage in gasoline and heating oil. Even then, the Congress may disapprove the President's decision by a one-House veto. The President may implement rationing at less than a 20-percent shortage only if both Houses agree to waive the requirement. It is my hope that this plan will never be needed.

Today, we will hear from the Department of Energy and, on Friday, we will hear from other interested individuals. My general inclination at this time is to permit work on the development and preimplementation of a rationing plan to continue, and I would therefore not be inclined to support a resolution of disapproval. The plan appears to meet most of the concerns which were raised by my colleagues when the first proposed rationing plan was rejected by the House. Nevertheless, I do intend to see to it that the plan is reviewed carefully by members of the subcommittee.

The members of the subcommittee are well informed about the general operations of the standby gasoline rationing plan, having considered the previous plan last year. It is therefore the hope of the Chair that the hearings will focus on the major revisions of the previous plan and their impact. It will also be useful to explore the costs of the plan, particularly in the preimplementation work which will have to be funded expeditiously if we are to proceed with the plan. Although the cost of implementing and operating a rationing program may appear to be quite large, there can be little doubt that a severe energy interruption could produce serious economic consequences, some of which could be alleviated through the implementation of a rationing program.

---

[1] "Standby Gasoline Rationing Plan," House Document No. 96-328, June 12, 1980.

We will also discuss with the DOE that they will comply with the statutory mandate to keep our committee fully and currently informed about activities concerning preimplementation of rationing. We expect the DOE to tell us today how that will be done and by whom at the DOE.

In recent months, there has been some discussion of a large gasoline tax combined with a rebate proposal which could be used in lieu of a gasoline ration program. This appears to be a measure which should receive sympathetic consideration. From an economic point of view, there may be many similarities between such a program and a rationing program which permits trading of rationing coupons. I believe that such a plan should be explored further and I have asked the Department to examine the merits of such a proposal. However, such a tax/rebate plan is not before us today and, in fact, is specifically prohibited under the terms of the Energy Policy and Conservation Act. The rationing plan before us is the only permissible means under existing law for dealing with a severe shortage. We would be making a grave error if we were to reject this rationing plan because we may prefer a tax/rebate which is not authorized under existing law. The likely result would be that our Nation is left with no plans for coping with a serious gasoline shortage in a time of great international instability.

Without objection, the text of House Joint Resolution 575, House Joint Resolution 571, House Joint Resolution 574, and House Joint Resolution 577 will be printed at this point in the record.

[Text of H.J. Res. 575, 571, 574, and 577 follow:]

[H.J. Res. 575, introduced by Mr. Brown of Ohio (for himself), Mr. Collins of Texas, Mr. Stockman, Mr. Loeffler, and Mr. Corcoran, on June 19, 1980;
H.J. Rex. 571, introduced by Mr. Gilman on June 13, 1980;
H.J. Res. 574, introduced by Mr. Ambro on June 17, 1980; and
H.J. Res. 577, introduced by Mr. Quayle on June 25, 1980,
are identical as follows:]

JOINT RESOLUTION

Relating to a rationing contingency plan.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, **That the Congress of the United States disapproves the rationing contingency plan transmitted to the Congress on June 12, 1980.**

Mr. DINGELL. We are very pleased to recognize as our first witness on this matter the Honorable Hazel Rollins, Administrator, Economic Regulatory Administration, Department of Energy.

Miss Rollins, we are happy to have you with us. If you would identify first yourself, for the record, and then your associates.

STATEMENT OF HAZEL R. ROLLINS, ADMINISTRATOR, ECONOMIC REGULATORY ADMINISTRATION, DEPARTMENT OF ENERGY, ACCOMPANIED BY PETER SCHAUMBERG, OFFICE OF GENERAL COUNSEL, AND BARRY VAN LARE, HEAD, PREIMPLEMENTATION PROJECT OFFICE

Ms. ROLLINS. Fine, thank you, Mr. Chairman.

I am Hazel Rollins, Administrator of the Economic Regulatory Administration. I have two of my colleagues appearing with me today. Peter Schaumberg from the Office of General Counsel, has had the distinction of working on each of the gasoline rationing plans that the Department or its predecessor agencies has formulated, and Mr. Barry Van Lare, who is new to the Department, having recently arrived as head of the Department of Energy's gasoline rationing Preimplementation Project Office. Barry will respond to questions regarding to how we will manage to stay in touch with the committee presuming that this plan will be preimplemented.

Mr. DINGELL. We thank you for being with us. You are recognized for such statement as you choose to give.

Is it your wish to read your entire statement, or would you like to——

Ms. ROLLINS. No; it is not, Mr. Chairman, I would prefer to simply submit that for the record and briefly summarize my comments.

Mr. DINGELL. I think that would make good sense. Without objection, your entire statement is entered in the record [see p. 77] and we recognize you now for such comments as you choose to give.

Ms. ROLLINS. Thank you, Mr. Chairman and members of the subcommittee.

I am pleased to have this opportunity to testify to you today and to answer your questions with regard to this gasoline rationing plan which was submitted by the President to the Congress earlier this month. The Department and the Administration believe strongly that a standby gasoline rationing plan should be approved and preimplemented to the point that it can be activated within 90 days' notice. We all recognize how vulnerable our Nation is to a sudden cutoff of vital energy supplies. It is a matter of critical importance to the Nation's economic and total security in the event of a sharp drop in petroleum supplies that a standby rationing plan be available to insure the continuation of essential services will be there. This plan will provide each user with access to gasoline and provide more importantly, in our view, an orderly system for distribution, should such a shortfall occur. Under no circumstances should the process of bringing the plan to a readiness state be delayed while this Congress evaluates alternative measures. It is simply a luxury that we cannot afford.

A supplemental in support of this plan was presented to the Congress on June 19. I have provided for the chairman and the subcommittee a more detailed breakout of the preimplementation budget of $103 million which I will be happy to discuss with you later.

The Department of Energy considered a number of issues in the development of this plan, and there are a few which I think bear brief discussion this morning.

In developing the plan, we devoted a great deal of attention to the relative merits of basing our rationing allotment system on motor vehicles as opposed to the driver's licenses. We received extensive testimony on this issue both from the public—from consumer groups, more specifically—and from State and local government officials who might have some responsibility for implementing the plan at the State level. Many commentators had some familiarity with the details of both the rationing system based on driver's licenses and the vehicle registration.

It is fair to say that the votes were pretty even on whether the entitlement should vest from ownership of a car or from holding a driver's license.

The Department believed that there are advantages and disadvantages to each choice and, of course, there are differing views on where the equities lie. As this subcommittee is aware, the Department has determined to entitle rationing allotments on the basis of the ownership of the vehicle. We have done this because we believe the possession of a motor vehicle provides fairer, more accurate data of gasoline requirement. Generally, we have found that individuals with motor vehicles have a greater need for gasoline than individuals who merely possess driver's licenses and may or may not possess a vehicle. An allotment system based on driver's licenses will provide rationing rights to many individuals who do not drive. Since rationing rights would be marketable, a recipient would be free to sell their coupons and receive a windfall profit at the expense of individuals who have a greater need for vehicle use.

We also believe that entitling allotments on the basis of the ownership of vehicles more carefully examines the need for gasoline, as evidenced by the ownership of a car, and especially addresses the problem of equity among inner city, suburban, and rural drivers.

Data that the Department has secured from the Department of Transportation indicates that equity is achieved in viewing these three groups if the entitlement vests with the ownership of an automobile, and there is a chart available which outlines basically that fact. The chart is contained in the progress report that we submitted with the gasoline rationing plan. What it shows is that the number of miles driven per household as between central city residents, suburban residents, and actually rural residents frankly increases. Central city people drive less, those in the urban ring more, and interestingly those in rural America just a bit less.

When we look at the number of vehicles owned per household, again it turns out that in the central city we own fewer cars and in the suburban area more, and in rural America just slightly less. When we vest the allotments based on vehicle ownership, actually what we do is come upon an average that seems to put everybody pretty much in equity. We have inner city drivers driving about 11.9 thousand miles per year per vehicle, suburban owners driving about 11.8 thousand miles per year, and those from rural America driving about 11.7 thousand miles per year. So we think in this designation we have achieved equity among those classes of drivers.

I think it is important to discuss the differences in this plan and the plan which was transmitted to the Congress last spring. The principle difference in our view is that this plan carries out the dual objectives of the Energy Policy and Conservation Act to distribute rationing rights among the States on the basis of historical use, and to provide an equitable distribution of the shortfall among all classes of end users. To comply with this provision the plan provides that ration rights will be distributed in accordance with each State's gasoline use, and the most recent period for which reliable data is available.

We have also granted supplemental allotments to businesses. The current plan provides for firms to receive a rationing allotment equal to a percentage of their base-period gasoline use. This new feature, which received strong support in public comment, simply permits each car owned by a business or a self-employed individual to receive a rationing allotment. In addition, under this plan, business and self-employed individuals would receive a supplemental allotment by filing data on historical gasoline consumption. Our belief is that this will enable those businesses that use vehicles more intensively than the average to receive supplemental allotments to meet at least in part their above-average gasoline requirements.

The other significant area where there has been a change is in the according of a priority status to additional businesses. Priority activities have been expanded to include such businesses as taxicabs and rental vehicles, certain telecommunications activities, utility services, for-hire mail and small-parcel transportation and delivery, search and rescue activities, energy production, and newspaper distribution. Of course, the Department of Defense, with respect to its activities directly related to national security, retains its priority status. Priority activities will receive allotments equal to a larger percentage of the base period usage than the percentage allowed to businesses generally.

Finally, under this plan, agriculture is treated as a priority activity and its definition has been expanded to include commercial fishing as well as related distribution of agricultural products.

In addition, priority allotments for agricultural use will be taken from the national supply of rationing rights before calculation of each State's allotment.

I believe that highlights the basic significant changes and differences in this plan than the earlier plan and I would be quite happy to open myself now for questions, Mr. Chairman.

[Testimony resumes on p. 85.]

[Ms. Rollins' prepared statement and attachment follow:]

STATEMENT OF HON. HAZEL R. ROLLINS, ADMINISTRATOR, ECONOMIC REGULATORY ADMINISTRATION DEPARTMENT OF ENERGY

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to testify in support of the Standby Gasoline Rationing Plan which the President submitted to Congress on June 12, 1980.

The Department of Energy believes strongly that the standby plan should be approved and preimplemented to the point where it could be activated on 90 days' notice. World events continually show how vulnerable our Nation is to a sudden cut-off in our vital petroleum supplies. We must be prepared. It is a matter of critical importance to the Nation's economic security in the event of a sharp drop in petroleum availability that a standby gasoline rationing plan be available for use to ensure the continuation of essential services, to provide each user with access to some gasoline, and to provide an orderly system for the distribution of gasoline. Under no circumstances should the process of bringing the plan to a readiness state be delayed while we evaluate alternative measures or seek to achieve perfection. It is a luxury we simply cannot afford.

On June 18, the Administration submitted to Congress a supplemental budget request of $103 million to enable the Department to preimplement the rationing plan (see attachment). The plan is complex. A great deal of careful planning and development must occur to bring the plan to a state of readiness. These activities will require at least 12 months to accomplish. We urge that the Congress act expeditiously to approve this request so that we can move quickly to commence preimplementation.

Background

The Department of Energy published draft regulations for a proposed standby gasoline rationing plan in the Federal Register on December 10, 1979. The proposed plan was developed to reflect public concern and the specific views and concerns expressed by the Congress in debates on the plan submitted in March 1979, as well as in the Congressional hearings on legislation authorizing the development of this plan.

Consistent with the intent of Congress expressed in the Emergency Energy Conservation Act, we compressed the public comment period to expedite the development of a final plan. In spite of the shortened 30-day comment period we received over 1,500 comments on the proposal.

These comments were carefully evaluated in drafting the Plan which the President submitted to the Congress last week, and were considered in resolving issues relating to the content of the final plan, including the issues which we discussed at a hearing before this Subcommittee on January 31, 1980.

Today, I will discuss a major feature of the Rationing Plan--the distribution of ration allotments on the basis of vehicle registrations. I will then discuss the principal differences between this plan and the one that was rejected last spring.

Vehicle Registrations vs. Drivers' Licenses

In developing this plan, we devoted a great deal of attention to the relative merits of basing ration allotments on the ownership of motor vehicles as opposed to the possession of a driver's license. We also examined other options such as voter registration records as a means of determining eligibility for ration allotments. Of the options considered, vehicle registration and drivers' licenses were more practicable alternatives. The results of this examination are described fully in the Progress Report to Congress on the Standby Motor Fuel Rationing Plans.

There are advantages and disadvantages to each choice and differing views of equity preclude uniform agreement that the decision to distribute ration allotments on the basis of motor vehicle ownership is the best approach. However, in our judgment, structuring the plan on the basis of motor vehicle ownership is, on balance, more equitable.

First, possession of a motor vehicle provides the best available indicator of gasoline requirements. Generally, individuals with motor vehicles have a greater need for gasoline than individuals who possess a driver's license and may or may not possess a vehicle.

An allotment system based on drivers' licenses would provide ration rights to many individuals who do not drive. Since ration rights would be marketable, recipients would be free to sell their coupons and receive a windfall profit at the expense of individuals who have a greater need for vehicle use.

While it might be possible for individuals to purchase motor vehicles solely to obtain additional ration allotments, it would be far easier for an individual who does not possess a driver's license to obtain one. In this regard, according to data provided by the Department of

Transportation, in the area of 16 percent of the individuals who are eligible to possess a driver's license do not possess one. These individuals could easily obtain one.

Second, a vehicle based system takes into account differences in gasoline use of households in urban, rural and suburban areas. Suburban and rural households tend to drive more on average than urban households. However, this additional driving represents the operation of a greater number of vehicles as opposed to more intensive vehicle use. Data set forth in the Progress Report shows near uniformity in the number of miles driven per motor vehicle comparing urban, rural and suburban driving. Therefore, the distribution of ration rights on the basis of registered motor vehicles treats urban, rural and suburban households more equitably than a system based on drivers' licenses.

Finally, it is our belief that a plan based on vehicle registrations achieves a greater degree of equity among all income classes. Under either option, low income households, those with incomes below $10,000, would benefit from the ability to sell excess ration coupons. Although lower income households would receive more income from selling coupons under a driver's license-based plan than under a vehicle-based plan, middle income households, ($10,000 to $20,000) would suffer a substantial increase in cash outflow for ration coupons using drivers' licenses as the basis for eligibility. This would place a greater burden on middle income households.

We are aware of opposition to the use of vehicle registrations as the basis for ration allotments from a number of groups representing some consumers who support the allotment of ration rights to all adults. However, it is our view that a vehicle-base plan is, overall, more equitable.

Differences Between this Plan and the Plan Transmitted to the Congress on March 1, 1979

This plan incorporates a number of provisions markedly different from the plan submitted to the Congress last Spring.

Differences in Gasoline Consumption Among the States

This plan carries out the dual objectives of the Energy Policy and Conservation Act, as recently amended by the Emergency Energy Conservation Act, to distribute ration rights among the states on the basis of historical use and to provide equitable distribution of the shortfall among all classes of end-users. To comply with this provision, the plan provides that ration rights will be distributed in accordance with each state's gasoline use in the most recent period for which reliable data are available. In short, classes of users of gasoline in a state will incur the same percentage reduction as those in other states. An amendment to last year's plan made a similar provision, but has been refined in the current plan.

Supplemental Allotments to Businesses

The current plan provides for firms to receive ration allotments equal to a percentage of their base period gasoline use. This new feature, which received strong support in public comments, will ensure that the imposition of rationing minimizes the disruption to the economy and the inflationary effect arising from the fuel shortfall. Under the plan, businesses, including self-employed individuals, would receive the same allotment for each registered vehicle as individuals but could apply for supplemental allotments by filing data on their historical gasoline consumption. This will enable those businesses that use their vehicles more intensively than the average to receive supplemental allotments to meet at least part of their above average requirements.

Priority Activities

This plan has expanded the number of activities that are identified as qualifying for priority status. Priority activities are expanded to include taxicabs and rental vehicles, certain telecommunications activities, utilities services, for-hire mail and small parcel transportation and delivery, search and rescue activities, energy production and newspaper distribution. Of course, the Department of Defense, with respect to its activities directly related to national security, retains its priority status. Priority activities will receive allotments equal to a larger percentage of base period usage than the percentage allotted to businesses.

Finally, under this plan, agriculture is treated as a priority activity and its definition has been revised to include commercial fishing as well as the related distribution of agricultural products. In addition, priority allotments for agricultural use will be taken from the national supply of ration rights before calculating each state's allotment.

DOE as a Purchaser and Seller of Ration Rights

This plan contains the authority for DOE to buy and sell ration rights as a means of establishing and maintaining an equilibrium between ration rights and the supply of gasoline. The authority to buy ration rights is contingent on funds being appropriated for this purpose. Since ration rights must be issued in advance, with the number of rights based on projections of the amount of gasoline that will be available, a method for adjusting the number of ration rights in circulation is likely to be needed. The use of this authority will provide one of several mechanisms for achieving an on-going balance between ration rights and gasoline. Another method, for example, is to shorten or lengthen the ration period to balance the supply of issued coupons with the quantity of gasoline available in that period.

Expanded State Role

The final difference between the two plans would give the States the option of playing a larger role in the administration of the State Ration Reserve and in the establishment and operation of local rationing boards. The states will be able to exercise greater discretionary power in determining the size of the State Ration Reserve with an initial minimum of five percent of the total number of ration coupons allocated to the State, and in establishing the criteria for its distribution to recipients within the State on the basis of hardship and on the needs of the handicapped.

Mr. Chairman, this concludes my formal statement. I will be pleased to answer any questions the Subcommittee may have.

ATTACHMENT

RATIONING PLAN PREIMPLEMENTATION COST ESTIMATES
(1980 dollars)

	Estimated Costs
Allotment Planning	$ 7,209,000[1]
Ration Check Production	$ 4,200,000
Ration Check Issuance and Reconciliation, and National Vehicle Registration File	$ 21,000,000
Coupon Production	$ 18,000,000[2]
Coupon Distribution	$ 500,000
Banking Operations	$ 600,000
Federal Organization	$ 200,000
State and Local Roles/Functions	$ 10,874,000
Allocation Program Interface	$ 300,000
Ration Rights Market Operations	$ 700,000
Adjustment and Appeals	$ 200,000
Audit and Enforcement	$ 400,000
Management Information Systems	$ 5,315,000
Public Information	$ 4,700,000[3]
Program Management and Systems Integration Contractor	$ 7,002,000
Program Readiness and Maintenance	$ 300,000
Alternative Systems Design Concept Proposals[4]	$ 1,500,000
Management Reserve	$ 20,000,000
TOTAL	$103,000,000

---

[1] Cost may be offset by requiring firms to pay application fees.

[2] Assumes printing 5.0 billion new coupons.

[3] Assumes free advertising space in all media.

[4] Consists of analysis of alternative approaches to rationing based on modern computer and telecommunications technology to avoid dependence on coupons and checks.

Mr. Dingell. Miss Rollins, the committee thanks you for your very helpful testimony.

The Chair would like to direct to you this brief question: I detect that you have, in dealing with the option before you, between driver's licenses and registered vehicles, come to the conclusion, based on table 3 on the chart now before us, that probably the most equal and fair way of apportioning among central cities, suburbs, and the areas outside the metropolitan areas, is to look at the number of miles driven per motor vehicle. In the central cities, in thousands of miles, it is 11.9. In the suburban areas it is 11.8. In the areas outside the metropolitan areas, it is 11.7. The average of all households comes down to 11.8. That is a pretty close difference between the three categories of residential areas and living areas in the country, is it not?

Ms. Rollins. Yes; it certainly is.

Mr. Dingell. Do you come up with as fair an allocation between the three regional living areas if you go by driver's license?

Ms. Rollins. Our belief is you do not simply because you now have an entitlement based on ownership of a driver's license. Generally, there are more people in the center cities who hold driver's licenses but do not own a car. We have a chart which is a part of the Progress Report, which I can provide for the committee.

[The "Progress Report to Congress on the Standby Motor Fuel Rationing Plans—June 1980," may be found in the subcommittee files.]

Mr. Dingell. Your figures, I note, are from the Department of Commerce, Bureau of Census, the data is from 1973 and 1974. It is revised as of July 1976.

Is there any reason to believe that that data is not current for today, or very close to as reliable today as it was on the date when the figures were first put together?

Ms. Rollins. I am certain that some of us may quarrel with whether the statistics or the gradients will have changed greatly. I am not really able to say with a great deal of firmness, of course, they have not changed. The interesting thing, of course, once we finish the 1980 census, perhaps in about 18 months or so, we will be able to have another look at this data and information. But we are just stuck with the fact this is the most currently available data at the moment. There is nothing to lead me to believe with a great push toward energy conservation, the use of mass transit within central cities, that the situation would have changed dramatically with respect to the number of cars owned in cities and in general since the Nation has become more energy conserving. It is safe to presume that while we have not maintained status quo, generally the Nation is driving less.

Mr. Dingell. The hard fact is that without very many exceptions—the most noteworthy of which is the Washington metropolitan area, because of the completion of the subway—there has been very little shift toward mass transit in most areas of the country; is that not a fact?

Ms. Rollins. Mr. Chairman, if one views New York City, Philadelphia, and other areas that have traditionally been built with a base of supported mass transit, you will find more people moving into the mass transit system. This is certainly not true of all urban areas and I could not be persuaded by anybody to so indicate. But if one would look at the statistics from a large metropolitan area where there has been support of mass transit, I think I could fairly say that, yes, there has been an increase in ridership in mass transit in those central city areas.

Mr. **Dingell**. Thank you.

The Chair is going to recognize my colleagues in the order of their appearance, under the rule.

The chairman recognizes the gentleman from New York, Mr. Ottinger.

Mr. **Ottinger**. Thank you. It is good to have you back again, Miss Rollins.

Ms. **Rollins**. Thank you.

Mr. **Ottinger**. I support the administration's rationing plan because I think we have to have something in place. I am really quite unhappy with this one, but I suppose that we are always going to have people who are unhappy with any rationing plan. But I must say we should take a look at rationing from a point of view of the individual person's use. The World War II system through which I lived seemed to me to have worked reasonably well. We should look at a system with different categories of need—which could take account of your city individual that you are worried about that has a license and does not have much demand for automobile use; take a look at different categories of actual use, and then indicate people with a certain number of coupons by that category. Then to avoid the enormous expense which is predicted for this, to have voluntary boards. I think in an emergency there exists the kind of voluntary participation to work out the inequities, so that if somebody feels he has a legitimate need because of his work requirement, family requirement, or health requirements, or whatever it is, for additional allocation, he can go before a local board of his peers and make that kind of appeal.

I just cannot understand why we cannot address ourselves to that system which seems to me to be so much more equitable.

The second concern I have over the administration's plan, which has never been adequately explained to me, is the white market, which is intended to provide an adjustment for that person who has extra needs. It seems to me clear that the corporations on the tax-deductible basis are going to purchase up all the white-market coupons and drive the price of those coupons beyond the reach of the average citizen who has additional needs.

I have very strong reservations on these two grounds. One, it seems to me we would be much better off to go on the basis of the individual and his needs, and, second, that we ought to eliminate that white-market situation, which seems to me is going to be fraught with mischief.

Ms. **Rollins**. Congressman Ottinger, I will reply first to your query of whether we examined how the Federal Government might more carefully address the needs of individuals. Yes, we did, and of course we had last year, too, when we presented a plan to the Congress. We were inexorably drawn to several conclusions, basically by talking to, and perhaps more importantly by examining the records of the experience of rationing during World War II. The first important point to note is that we were dealing with a system back in the 1940's where there were 22 million cars to be regulated. Today's scenario presumes that there be in excess of 150 million cars to be regulated. The idea of the Federal Government, so far away from the locally situated individual making a decision about whose need has priority, we feel would be something like a large centralized bureaucracy that would perhaps bungle, so we thought about liberalizing the approach to the State rationing reserve. We have addressed that problem in two ways. One, the State, could come in and seek a larger than 5-percent portion of the total gasoline allotted to that State for use in the State set-aside system. Two, we afford to the State great flexibility in determining who will be allocated additional rights from the reserve, in addition to taking care of the needs of the handicapped, and those in a hardship situation.

The other way I think we have liberalized the plan, of course, is the obvious opening up of the priority classifications for business. Within a regulatory framework the Secretary of Energy is authorized, should he or she so desire, to open up that category.

Those were the two ways in which we had addressed that concern.

With regard to the exchange market for gasoline coupons, we spent some time determining what would be the appropriate mechanism. Obviously one would be to support your preferred method, and that is simply not to permit it. But again, looking at the experience from World War II, where most of us were aware of the tremendous black market, in counterfeiting or illegal movements of coupons for sale, it seemed more appropriate to permit that which obviously will happen. What we have done this time is permitted in the regulations for the Department to enter the exchange market for sale or purchase of coupons. We think in that way the Government can put pressure on the system should it become necessary.

Mr. OTTINGER. If we go with this, is there any consideration to making those coupons nondeductible? Say a corporation buys these things, why should the taxpayers support business in purchasing white-market coupons, thus depriving the taxpayer of a fair opportunity to have access?

Ms. ROLLINS. At the moment we are stuck with an interpretation that comes from the Internal Revenue Service. Peter Schaumberg, again from the Office of General Counsel, appears to be very anxious to answer that question.

Mr. OTTINGER. We are passing a law, we are Congress, we can tell the IRS what to do with that, can we not?

Mr. SCHAUMBERG. Certainly you are correct, Mr. Ottinger, that the appropriate way to do it would be through a legislative change of the Internal Revenue Code. We cannot direct the Internal Revenue Service what to do, so it is more appropriate for Congress to act in that respect.

Mr. OTTINGER. In instituting this white-market system, it would take a new legislative enactment under the existing legislation that you have. You cannot provide the white-market coupons only be issued on a nonexempt basis?

Mr. SCHAUMBERG. No; we could not provide for that under existing legislation.

Mr. Ottinger. I see.

You referred to the great difficulty of providing this on an individual-needs basis because there are so many more cars, and I do not really see how that is affected. Earlier you said it would be difficult to do this on an individual-license basis because inequity would appear because people in the cities do not use cars as much. I do not see that complexity. You would still be having local needs met. To the extent that inequities did appear, your basic categories are a rough cut. You say that people in certain professions that require a lot of driving get a certain category. I do not remember exactly, how many categories there were in World War II.

Ms. Rollins. Three, sir.

Mr. Ottinger. People who need their automobiles for business, professional people like doctors.

Ms. Rollins. Who make house calls.

Mr. Ottinger. Those few.

Ms. Rollins. Yes, sir.

Mr. Ottinger. But then you would have a local board that would be able to deal with the individual cases in the person's own community so the Federal Government, except for the rough cut that it may be making different classifications, really would not be making that determination. It just seems so much more equitable. I think there is going to be a lot of public outrage if this thing ever gets called up—the fact that the person with more automobiles is going to get a much better break in something that is really critical.

Ms. Rollins. I should make the point that, of course, there will be and there is an opportunity within the regulations to permit a cutoff for an excessive number of cars. The Department and this administration has indicated we will enforce that cutoff at the three-car level.

I guess the point I would like to make in response to the rough cut is that for as long as the Department has been studying this issue, we have been trying to identify a way to permit such a rough cut. There have been those who have argued, and there has been some care and attention given to this in the early 1970's, to examine the question of whether or not rationing rights ought to be accorded the people on the basis of location. Then one thought we should treat the cities differently and treat rural America differently. In examining the variance there, a person like me who lives within walking distance of work and anybody else who lives in the far outreaches of Northeast, that does not quite work.

The next cut we took, well, let us try zip codes, that certainly ought to get us to it. That does not quite do it, because there are many would live in Southwest and live next door to EPA and there are those who have to travel out to the Beltsville area to get to work. So the question of that rough cut and how the Federal Government makes it simply afford a crazyquilt pattern. We have satisfied nobody in an attempt to do just that.

Mr. Ottinger. Unquestionably, any system of rationing you put in is going to have difficulties and inequities. I think leaving the flexibility to the State by way of State setaside is really not as good or equitable a system as having local boards with that flexibility. I think you have difficulties in making rough cuts. You certainly are going to have difficulty with cut by automobile. The other just seems to me to be more satisfactory.

I have overextended my time. I thank the chairman.

Mr. **Dingell**. The Chair recognizes now the gentleman from Michigan, Mr. Stockman.

Mr. **Stockman**. Ms. Rollins, I note that in September 1981, under existing law, the following things are scheduled to expire: crude oil price controls, the entitlement allocation, refiner margin price controls, and suppliers purchase freeze.

In other words, by the time you have this plan ready to go we will have an absolutely decontrolled domestic petroleum market from every gas pump to the last import terminal. The question I want to ask you is do you believe that this white market coupon rationing system would work in a totally decontrolled domestic petroleum market in the event of a very large supply outage of the kind that we are addressing here?

Would it achieve its objective of preventing windfalls to suppliers and producers, finally hardships to consumers?

My own view is that it wouldn't, that the world price would skyrocket in the event of such an outage, domestic price would rise with it, and by the time you got the coupons into the mailbox the market would have already cleared through price rationing. And to distribute coupon under those circumstances would be just a lot of unnecessary bureaucracy, they would have a certain value in the market.

Would you buy that analysis first, and if not, why, and second, are you really implying with this kind of emergency management tool that we would have to reinstitute the whole structure of controls from the gas pump all the way back upstream in order to make coupon rationing achieve its objectives, which are really the final objective of protecting consumers and capturing windfalls from suppliers?

Ms. **Rollins**. First, I will point out to you that when the EPAA expires, not only does the buy-sell program and allocation and price controls expire, but also the authority to enforce and implement gasoline rationing.

It has been this administration's position that well, of course we will have to come back to the Congress seeking some authorization, first to implement, and then to enforce gasoline rationing should we ever need to. The view has been this plan, of course, would not need all of the pervasive controls that we know today and are now beginning to lift off.

Obviously there must be some capability to control prices. And there must be some capability, aside from the fact this plan is designed to move up through the distribution chain, to assure that some supplier-purchaser relationship for product have been secured.

In the past we have stated that the administration was examining all of these issues. We are examining them a little more carefully and a little more feverishly than we were last year. This time, and, of course, when it is appropriate, we will present to the Congress this administration's view of what ought to be the framework left behind after EPAA simply as a standby authority.

Mr. **Stockman**. Well, I appreciate your answer and you said you would need some but not all of it, but by price controls you mean you have got to have gasoline price controls at the pump, you have got to control the distribution system, the wholesalers, jobbers, you would have to control the refinery margin.

Wouldn't you have to control crude oil prices as well? Once you do those things, of course, then the need for entitlements and all the other machinery automatically falls into place, because you can't control crude prices when you are buying half on the world market and half at home, unless you have all of the rest of the apparatus.

What I am trying to raise here is the issue of whether or not a gasoline coupon rationing plan can work unless you have all of the mechanism in place?

Ms. **Rollins**. Congressman Stockman, that presumes that each of us who have responsibility for planning would desire to redraft the same program we have today. Almost anybody who has been involved, either from the regulating end or had to live through the regulations, would suggest to you it would be nobody's intention to deliver up on a standby basis a program that matches the thing we know today—that has sort of grown out of a crazy quilt attempt—and live with it for 8 or 9 years.

Mr. **Stockman**. Well, I understand that, but I still don't think you are answering my question.

Would you have to have crude oil controls?

Ms. **Rollins**. Would one have to? Of course not. Would it be desirable to have crude oil price controls? Yes.

Mr. **Stockman**. I guess we are not communicating. I am saying absolutely you have to have crude oil price controls to make rationing work, otherwise domestic crude prices will rise to the world level and that will put the pump price so high that you will no longer need coupons to ration away or allocate away the excess demand. It wouldn't be there, people will be paying $3 a gallon for gasoline and the whole exercise of coupon rationing is academic at this point.

Do you understand the argument I am making here?

Ms. **Rollins**. Of course I understand the argument you are making. The difficulty I think we are having is that when you expressed the question, will you need oil control, you put before it a long discussion of every regulatory device in use now in the Department of Energy. I am led very forcefully to say, while there must be some price controls, that I don't fool myself to think there would be anybody who wants to design and fully replicate that that we know today. I think that is where we diverge.

Mr. **Stockman**. Well, I guess you said you would have to have crude oil price controls. The reason I raised that is that we now have a windfall profits tax in place. If you were to get a world supply outage sufficient to get a 20-percent gasoline shortfall—which is what triggers this plan—my view is the price of crude oil would go to $50 or $60 within a matter of weeks on the world market. It would then go to the price domestically as well, unless you had the price controls.

Under those circumstances the Federal Government, because the windfall tax mechanism is in place, would be capturing roughly 60 to 70 percent of that huge jump in the price, according to my calculations, about a billion dollars a week in extra revenue.

The question I am raising is why couldn't this huge revenue increase that will automatically be captured, as long as price controls are in place, be used to accomplish the objectives of coupon rationing, namely to protect lower and middle income consumers from financial hardship?

Ms. **Rollins**. All right, that presumes, of course, that the scenario that you have drawn is a scenario we would be faced with in a 20-percent shortfall. My view is should that be the case, of course, the Congress is free, once this plan is preimplemented and once we have all had an opportunity to examine the very nature of the shortfall, or permit or not permit the use of this plan.

My argument will be almost any scenario that a reasonable person could paint is, of course, one that we could expect. That is what contingency planning is all about, to have necessary tools ready should you need them.

Indeed, the one you have outlined, may be appropriate. On the other hand, it may not be appropriate, and my view is we simply should have all of the tools ready that we are capable of designing. I would say this is one of the tools that must be on the shelf.

Mr. **Stockman**. Thank you.

Mr. **Dingell**. The Chair recognizes now the gentleman from Texas, Mr. Loeffler.

Mr. **Loeffler**. Thank you Mr. Chairman.

Ms. Rollins, first, I want to reassure myself that the agriculture priority use is in fact greater in its application than the initial plan that we spoke of at the last rationing hearing?

Ms. **Rollins**. First of all, the definition of agriculture for priority use has certainly been expanded a great deal. My belief and the belief of those who crafted this final piece of the plan, is that it makes good sense. It gives equity among and between the citizens who might be living in a State that is heavily dependent upon agriculture by permitting the agricultural use to be subtracted from the national total before the allotments go into the State.

This in essence, prevents the nonfarm automobile user or driver in a State like Texas or in a State like New Jersey, which is equally heavily dependent upon farming and agriculture, not to have to support the needs of agriculture to the detriment of his or her own needs.

Mr. **Loeffler**. What you are saying, then, is that not only is it limited to off road use, but from the moment, in other words, the plow begins to till the soil through distribution at the food store countertop we have the application of the agriculture priority?

Ms. **Rollins**. Yes, sir, you have expressed it correctly.

Mr. **Loeffler**. I am looking at the figures that you have on your chart, and I am somewhat perplexed to see that the average miles on what you determine to be "outside metropolitan areas," known to me as rural areas, are basically the same as suburban areas and central cities.

First of all, where do these numbers come from? How old are they? And do you believe that they are, in fact, accurate to meet today's proper description of relative fuel use?

Ms. Rollins. These numbers come from the Bureau of the Census, the Department of Commerce. They actually come from data which is collected by the Census Bureau—I think it is every 3 years—and fine tuned at the time of the taking of the census. So, in fact, the surveys were last taken in 1973 and have been revised in 1976.

Those of us who are involved in the collection of data, which might give some idea about how people use gasoline and how they use their automobiles would prefer that there be much more timely surveys taken on these issues. Surveying is a very expensive, as you know, undertaking.

When the 1980 census has been completed, we will have some more definitive, and current information.

Mr. Loeffler. I think there is no question in looking at those figures where it is 11.9, 11.8, 11.7, in descending fashion toward less use at the rural level, that that is absolutely inaccurate.

Ms. Rollins. Well, the difficulty here is perhaps what we have done is try to take an average. This is the number of miles driven per vehicle, and what the chart shows us is that vehicle ownership among surburban households and rural households is more extensive than that of households in central cities. So what you have is an averaging, or at least an appearance of an averaging simply by virtue of the fact that more automobiles are owned by those people who live in the surburbs and live in rural America.

Mr. Loeffler. Are you saying to me that suburban driving requirements are greater than rural driving requirements?

Ms. Rollins. I am certainly saying if one looks at these two figures, again, they are averages and these are numbers of miles driven per vehicle, that the driving that takes place or that took place in rural America, vis-a-vis suburban America, in 1973 and 1974, updated in 1976, is just about the same. We are talking about 92 perecent.

Mr. Loeffler. Nevertheless, those numbers give me some concern. In fact, a great deal of concern. Now, looking at your proposal, we have a situation where you rely upon a so-called State formula which serves, as I suspect is your intent, to equalize the impact of rural driving versus the surburbs as well as central city driving.

Looking at the figures, if there is a need, for instance, to go to the white market, the suburban driver has the capability of being able to find where a white market may be. A rural driver does not. So, in essence, they are completely cut out of the situation. Someone in the 21st Congressional District will not drive 100 miles to go to the city of San Antionio to find out where the white market may be. So you may reach equilibrium, but practically you have not.

Ms. Rollins. Well, I would tend to disagree with you, because what we are creating here is what has to be easily defined as a second currency. My belief is that once you have an exchange market established, it is not simply that one will go to a fancy office with a sign, but as one goes to town to pick up groceries, drugs, products, or whatever one has to go to town for, one may find obvious places to buy coupons.

The other thing that the Department intends to do in its public affair or public information activities is to insure that the local newspapers print information regarding the availability and the price of coupons on an exchange market. So the picture you paint——

Mr. **Loeffler**. Where will that exchange market be in the rural areas?

Ms. **Rollins**. Since we are dealing with a valuable commodity, my view is that this exchange will take place, as it does today, at the center of commerce, which may be a town, or a shopping center. I could see this occurring at almost anyplace where one buys bread or milk or even near the bank. It could occur at a place where coupons are held, such as a food stamp distribution center. They could be sold at a supply hardware store.

Mr. **Loeffler**. But I think that even theoretically that is not practicable. How are you going to move these coupons, for instance, again from a major metropolitan area into rural areas several hundred miles away?

Ms. **Rollins**. I think of myself as a very pragmatic person and since these coupons do have a value, my belief is that they are not going to be running away from a marketplace, they will be seeking a marketplace.

Mr. **Loeffler**. I would like to turn my questioning to another facet of the plan. When plan No. 6 was before the House last year it was rejected by a vote of 159 to 146. At the last minute, the Department of Energy, or the administration, came up with a great concept entitled then and told to us as a historical use factor.

What is the difference between the so-called historical use factor that you or the administration made available to Congress at the last minute, the figures that were made available to us on the floor of the House, as compared to the current so-called State allocation formula or State use formula?

Ms. **Rollins**. You may recall that there were a flurry of last minute amendments during May and June of last year. The difference in application of this historical use formula this time is simply that that is the only formula that is being used to distribute the national supply among the various States.

It will depend upon what stage of the negotiation one recalls, I happily was far away from the Department viewing all this through newspapers and television. Last spring, we started off with a 50 percent of an equal allotment to all States, then applied a historical use factor.

I recall there may have been several other adjustments. As I indicated, I was not a happy party to those negotiations. But difference in time purely and simply is that the historical use indicators is the only indicator that is used to apportion available gasoline supplies to the various States.

Mr. **Loeffler**. Let's look again at the State of Texas, where clearly more than 50 percent of the population resides in the central city and suburban areas. Now, take for example a hardware store in a rural area, which is not associated with the so-called agricultural priority use. How is this hardware store, the owner of the hardware store, or a single family business, going to be able to equitably have sufficient rationing coupons available?

Ms. ROLLINS. All right, one has to presume that the hardware store, if it is picking up equipment, and supplies, has a number of vehicles—each owned by the company or the family.

Mr. LOEFFLER. I don't think you can assume that.

Ms. ROLLINS. I think you could because the plan permits just that. I not only assume——

Mr. LOEFFLER. The hardware store may have two or three vehicles. Many of the goods will be coming in on freight lines, I would suspect.

Ms. ROLLINS. That is step 1. In addition, because we have now seen a need to provide supplemental allotments for any business or self-employed individual, should that supply be deemed by this hypothetical owner of this hardware store to be insufficient——

Mr. LOEFFLER. Does that come from the State formula or from the national allocation?

Ms. ROLLINS. No. Perhaps we should walk through this. The owner of the hardware store, of course, is not seen as an agricultural priority. I can imagine some circumstance where say a cooperative, which also happened to be a hardware store but was a distribution point for a grainery and the like, might be, but that will be something for Mr. Van Lare to deal with should you give him permission.

We presume we have taken off the national reserve we were talking about before, those priorities for agriculture. Now the State of Texas has received its allotment. That owner of that hypothetical hardware store will first receive allotments for each vehicle that he possesses, and in addition, should he deem that that allotment is insufficient, he will provide the Department of Energy information which would prove his historical use for that business. A supplement would then be provided to that individual and that, of course, would come from the gasoline available to the State of Texas.

This is in addition to last year's plan and we believe it sensibly reflects the fact that a business person may have a need beyond that allocated for each vehicle he owns.

Mr. LOEFFLER. Thank you, Mr. Chairman.

Mr. OTTINGER [presiding]. Time of the gentleman has expired. Mr. Brown.

Mr. BROWN. How did you come to the conclusion that, as I understand the plan, to base the rationing program on data collected before the shortage when the usage before the shortage would likely be tight?

Ms. ROLLINS. Let me see if I understand the question.

How would we simply come upon the number of gallons available in the United States prior to the shortage?

Mr. BROWN. No, the distribution, the use. I understand the distribution will be by States; is that correct?

Ms. ROLLINS. That is correct.

Mr. BROWN. And that the experience that you are using for the distribution by the States will be what?

Ms. ROLLINS. I think now I understand your question.

Already the Department of Energy has been working with the States on just this issue. What has been the historical use of the

best copy available

State? How does one measure historical use, more importantly, what conservation has each and every State achieved?

The EECA statute, under which both gasoline rationing has been planned and under which the States and the Department of Energy are now working out targets for gasoline conservation, sets forth a formula which one must use to determine historical use. It says first of all, we must focus on the most recently available data and that it should be no older than 3 years.

The Department has had a very lively and sometimes contentious examination going on with the States to determine just what data should be used.

At the moment, as I understand, this exercise has just about been completed and it is going on in the Office of Conservation. We are intending and want to use both information available to the Federal Government, which tends to be information on taxes collected for gasoline in each and every State, and any data that State might have which would tend to augment the Federal data which the States sometimes believe is not correct.

My experience in this effort—and I did spend some time last winter working with States on this question—by the time we begin to focus on the preimplementation of gasoline rationing, we should not scrap all of that happy and sometimes contentious negotiation between the States and the Conservation Office of the DOE, but we should embrace and take off from that point.

Mr. Brown. I listened to all that and I still don't understand the answer to the question any more than you understood the question. The question is what historical data are you using? What is the base by which the States share or allocation will be determined? Is that what you are telling me?

Ms. Rollins. I am telling you that it is yet to be determined, but we will be forced to take the most recently available data.

Mr. Brown. How long do you think it would require you? How much time would be required for you to be able to tell the State what it would get under a gasoline rationing plan?

Ms. Rollins. My view is that it would take little time, and now perhaps I should spend just a little bit of my own and your time discussing the data that is now available to the Department of Energy.

I have mentioned that the data will be collected by the Department of Transportation. The Department of Energy Information Office collects its own data on gasoline use and consumption, so the difficulty is not so much that this data is not available. The difficulty will be that there are so many various data sources available and the thing I further thought I had expressed was that the cities are now wrestling with this very concept.

Now, in dealing with the gasoline targets for conservation, rather than throw away all of that negotiation that has now been going on for about a year and a half, we will no doubt embrace it and use the same data base that the States are happy with once they determined that they are satisfied with the data base today.

And at the moment, to go further—I know I am restating myself—that seems to be a combination of data both available to the Department of Transportation on the taxes collected by each

State for gasoline sold in that State, along with any further data the States may have on gasoline consumption.

Mr. Brown. I guess if one wants to come to a figure, one could at least suggest a method by which the figure is arrived at. Do I understand that the method has not been settled yet? That is, there are arguments between the States and Federal Government as to what the method, what the formula would be, how it would be arrived at?

Ms. Rollins. There is discussion between the State and the Federal Government on the formula, but interestingly enough, that discussion focuses on a number of other elements which, of course, would be obvious to both of us—one, how does one measure new growth in the State, and to the extent that that is possible with gasoline targets. The other discussion has been how much credit the States receive in terms of conservation already achieved.

There are, to my knowledge, some four or five formula that are now available on that that deals with those issues and I may be a little out of step in terms of whether the negotiation has been finally closed off.

Mr. Brown. There is really no settled formula?

Ms. Rollins. Again, in my view, there is no settled formula. I have to go back and check with the Conservation Office. Perhaps they have had success I am not aware of.

Mr. Brown. The reason I asked this question, of course, Congress has to either approve or disapprove the plan. I guess what I am groping toward is that we have a plan but it is only the broadest sketch of a plan, the details of which are yet to be worked out, and to put it in the vernacular, we are signing to some extent—if we approve the plan—then, a blank check for the agency to work out the details.

Now, at this point, if you are advising me that the States are negotiating, because there is no agreement between DOE and the States. I guess the States still have some leverage because they don't like what is being proposed, and no conclusion has been reached. If you keep negotiating until it is time for the plan to take effect, that is, for it to be approved in general terms by the Congress, and there is no objection to the plan, then the States will be at a considerable disadvantage because DOE will in fact have a blank check to do what it damn well pleases, is that correct?

Ms. Rollins. In my experience, in dealing with the States, that is not right.

Mr. Brown. What is there, once the plan has been approved by the Congress, that would give them any leverage to correct the plan if they are inequitably dealt with by DOE?

I have some severe problems with DOE, as we all do, from various aspects of its behavior. I sat on the National Energy Act Conference, and later watched them write regulations that had no bearing on anything that we did in that conference but rather on what they originally proposed that we rejected. And I have to say that I don't think DOE is a terribly disciplined organization when it comes to getting these things either clearly laid out or, once some objection is raised, getting them corrected. That is why I have a certain lack of confidence in the negotiation process which is still going on, to reach a formula that we are supposed to approve in this legislation, that will be determined after we have approved whatever DOE wants to bring as the formula.

Do you follow me?

Ms. Rollins. I do follow you.

Mr. Brown. OK, we understand each other, finally.

Ms. Rollins. The negotiation that goes on between the States and the DOE on the formula that should be used for another section of this act, is one in which the States do not find themselves powerless. My experience has been whenever we are dealing with 50 States and the States have something to gain or to lose, they very vigorously represent their issues and if they are dissatisfied with us, they know exactly what to do.

Mr. Brown. What is that?

Ms. Rollins. That is to raise enough "holy Cain" so that the thing that they are dissatisfied with gets generally redone.

Mr. Brown. I have learned. I hope they have learned better. I have raised "holy Cain" on a couple of things without any response.

Ms. Rollins. Perhaps it has something to do with the fact there are 50 of them, they generally manage to get heard on this question of negotiation. I again point out the fact that that is——

Mr. Brown. Some of them only have one Congressman also, you know.

Ms. Rollins. I understand that. But they are heard.

Mr. Brown. Being heard and having a response are two different things, I assume. I can only assume that I am heard. I don't have the problem of getting heard, it is the response that I am concerned about, or lack of it.

Ms. Rollins. My view in this matter with the States is they are getting a response. One of the reasons they are getting it, of course, in this effort and with the effort for setting the gasoline conservation targets is that the States will bear a tremendous burden in implementing either one of those plans. So it would be rather foolhardy to design something they will not be comfortable with or felt was unfair or could not be implemented.

Mr. Brown. Except under that plan the DOE is given authority to approve or disapprove. Once it disapproves, if the State doesn't come up with a plan, the DOE can write the plan, is that right?

Ms. Rollins. That is certainly true.

Mr. Brown. This gasoline rationing plan is section 570.7 says that after the congressional review period the DOE has the ability to change the plan at its will. Isn't that right?

Ms. Rollins. Well, I am certain that language is not written in that way and any plans that are permitted——

Mr. Brown. What is the effect of the language in your interpretation?

Ms. Rollins. I think the effect of the language is to permit those changes only which would tend to refine the plan or to further amplify it and certainly not change it, Congressman Brown.

Mr. Brown. It says, "DOE has authority to issue regulations, rules, orders and guidelines and may make some adjustments as are necessary to administer and implement the provisions of these regulations. Such regulations, rules or orders, guidelines, adjustments shall be issued in accordance with the applicable procedures requirement and to the extent possible, only after an adequate opportunity for public comment." It doesn't say anything about responding, it just says the opportunity to hear.

Ms. ROLLINS. Congressman Brown, I think the points——

Mr. BROWN. To the extent possible.

Ms. ROLLINS [continuing]. That bear emphasizing are that we may change these regulations, not any others, that we may modify.

Mr. BROWN. But these regulations are only broad general guidelines, because you are telling me there is no plan for the distribution of coupons among the States, that is still in negotiation. There comes the rub.

Ms. ROLLINS. That is certainly true and it is the Department's intention, as we stated both publicly and in the document that, of course, there will be a need to continue to regulate—to put some meat on this framework.

Mr. BROWN. After we approve it?

Ms. ROLLINS. Of course after it is approved.

Mr. BROWN. Of course.

Mr. OTTINGER. Time has expired.

Mr. STOCKMAN. I have a question that was provoked by this discussion. As I read your report, you admit there is a lot of preimplementation work yet to do and there is no limitation on the vehicles per household that would be eligible, we haven't designed how you measure your State historic consumption, and six or seven other major policy plans in the plan.

What I would like to ask, if we blew the whistle right now and gave you the green light and said go right ahead and finish those preimplementation steps as quickly as you can, what is the earliest that you could actually get a rationing plan into the streets, the coupons in the mailboxes, if we were to tell you today full speed ahead?

Ms. ROLLINS. It would take 12 to 15 months to preimplement this plan to a state of shelf readiness, and presuming it was ready and on the shelf within those months, another 3 months to actually implement it.

Mr. STOCKMAN. So that is 15 to 18 months?

Ms. ROLLINS. That is correct.

Mr. STOCKMAN. Therefore, there is no conceivable way you could put this plan on the street before the underlying statute expires next September?

Ms. ROLLINS. That we have always said, Congressman. Yes, that is correct.

Mr. STOCKMAN. And in that case, next year we are going to have to deal with the expiration of EPCA and all those matters that I mentioned before. Why should we approve a plan that would be on the shelf for implementation if we haven't made all of those other policy decisions, because I would still go back to my original point, and that is this plan is useless without price controls and allocation and entitlement and crude oil price controls, because it will not accomplish its intended purpose unless you could convince me otherwise.

Ms. ROLLINS. The work must begin on things such as the formula to be used to designate each State's historical use, to make some determination about how to make this exchange market free from tampering, bankruptcy and the like. Questions about how one permits or provides for a distribution system that would get any piece of pie to 150 million people, in my view, has to be started today.

Mr. STOCKMAN. I would agree. I would agree with that. Why do you have legal authority to implement? Why couldn't we just give you funds for ongoing study, research, and development work, as to what a rationing plan would look like, all of us agreeing that it won't be put into effect until September 1981 at the earliest, and that we are going to have to revise the basic authorities not only for rationing as a legal step but for all the supporting machinery that has to go with it?

Ms. ROLLINS. I think that would be an approach that would be appropriate had this Congress not spoken last fall to indicate the design of the gas rationing program they did want, and that is the one before us. Should the Congress have another thought, of course, the Congress has the will to do what it will. But this is the thing that is before us and to continually push it back year after year, saying it is not perfect enough, don't do a darn thing with it leaves us so naked, so vulnerable that it is insane.

In my view, we have to go on and begin to plan to implement something. This is something the Congress said it wanted.

Mr. STOCKMAN. I appreciate the concern about nakedness. I wish we could get the same degree of urgency out of the Department regarding the strategic storage. That is one step probably more effective than any other that we could take immediately, but we are not doing that. There seems to be some uneveness in the sense of urgency.

Ms. ROLLINS. Take it a step at a time. Congress has also spoken its will on the storage.

Mr. STOCKMAN. We will go on to the next point, and that is, yes, it is important to measure gasoline on a historic basis; yes, we need to have an inventory of vehicles, and to come to some rational conclusion about limits per family, but I would like to suggest to you that until you decide these auxiliary policy questions, what kind of price control mechanism are you going to have?

This is all academic. And is there work proceeding apace on all the supporting regulatory machinery that would be necessary to make gas rationing work? I would like to hear some of your ideas as to what that would be, because I think we are making a great mistake here, assuming that this thing can work on a freestanding basis, and it absolutely cannot, you will get a $3 price at the pump and the coupons will be worthless.

Ms. ROLLINS. As I thought I had indicated earlier, yes, work is ongoing.

Mr. STOCKMAN. Is it integrated? Are the people who are working on the rationing plan talking to the people who are working on the followup to EPAA in terms of whatever standby authority——

Ms. ROLLINS. The people who are working on the gasoline rationing plan are a part of that group. Are they talking together today? I would say not. I think they will be in a better position to talk to each other after we get this thing behind us, because it consumes the Gasoline Rationing Office, the ERA, and a great deal of the Department.

On the question of what I personally believe, I think it is rather unfair for me to paint a picture of the standby authorities that I think may be necessary when yet the Secretary has not had this presentation made to him nor has the administration had an opportunity to speak its will.

It is obvious that you and I agree about the same thing, there must be some form of price control available.

Mr. STOCKMAN. I don't advocate that or agree with you, I am saying it is a function of the necessity to make——

Ms. ROLLINS. Do I hope we will ever avoid the need to use this plan or ever have to go to some standby authority? Of course I do. These are things that we must plan for.

Am I convinced that we need a system of control that is less persuasive than the one we have today? Yes, of course I am. If one plans for a gasoline rationing program that would be shortlived, rather than 6 or 7 years long, as is the controlled program we know today, then we began with some opportunity to do less instead of more.

Mr. STOCKMAN. Well, I think it would be helpful as the Congress considers this, if we had some general indication from the Department as to what you are buying off on if you approve the plan in terms of supporting regulatory machinery. I would like, I would be interested in having some submission for the record from the Department as to what kind of crude oil price control entitlement system, refinery-dealer margin control system, allocation system, would be necessary, functionally necessary to make this achieve its intended objectives of holding down the price in the gasoline market and thereby preventing hardships to the recipients of coupons.

Ms. ROLLINS. Congressman Stockman, I understand your desire to have same. I would point out to you I think it would be a far too preliminary piece and something that I obviously have stated here, the Department is not ready to unveil.

This is the same situation we found ourselves in last year, and I would suggest that it probably makes a great deal more sense to permit the Department to complete its recommendations still going on in certain parts of the Department and subsequently, when it is prepared to present that to this body and not call for it out of time.

Mr. STOCKMAN. Well, I just would say I think you are asking us to buy a pig in a poke and that may affect the disposition of some Members of Congress to support approval of this plan.

Mr. DINGELL. The Chair recognizes the gentleman from Texas, Mr. Loeffler.

Mr. LOEFFLER. Thank you, Mr. Chairman.

Ms. Rollins, I would like for you to give me your opinion as to the difference between a so-called white market and a black market with respect to the coupon system.

Ms. ROLLINS. Well, first of all, Congressman Loeffler, I want to point out to you that I wish we could all decide to call it an exchange market. Sometime ago, with a great deal of embarrassment, Ms. Margaret Push Wilson of NAACP pointed out to me the perjoratives that carry themselves with black and white markets.

I pointed out, my God, I have been so submerged in the Department's business it never occurred to me. If we could all start to use those terms and the next time I have to see Ms. Wilson, maybe she won't have so much to criticize me about.

Here are the differences I see. I am old enough to remember World War II, and quite frankly, to remember that lots of things moved in the so-called black market. We have a lovely family story we tell about my older sister, who was then in the first grade, who went to school where the teacher was explaining there was no coffee, no butter, no sugar, and all the kids had to do without.

Whereupon, my sister raised her hand and said that is not the case at all. In my neighborhood we know where you can get all of those things. Suffice to say, she was told not to ever be so forthcoming again.

But I point out that in telling that to you, this is the way I remember World War II, the fact that whatever it was that was rationed and not available, could be purchased for a price. I lived in a port called Newport News, Va., where much came in and went out for that area of the lower Eastern Shore and obviously people were stealing things that should be under rationing, and they were available to those who could pay the price.

The idea in creating an exchange market was to avoid that—to actually say that this commodity may be freely exchanged. To the extent that inflation and price is caused by the fact that people are buying that which is illegal and willing to pay any price for it, the incentive will be removed. More importantly, that upward pressure on the price of commodity would also be deflated.

Mr. **Loeffler**. What you have said is that the difference is that one would be legal, the other would be illegal. Therefore, you still have the bottom line of the exchange market being an extremely profitable venture for the so-called middleman or broker or whoever that is able to have additional coupons left over.

I believe that what we will see is clearly a massive flow of income from rural States—yes, from rural States, to metropolitan States, from rural areas to metropolitan areas. When we look at the white market, the exchange system that you have described, is there then going to be some sort of curve to prevent the excessive or windfall profits that we have heard so much about in other areas of energy? Where is the ceiling going to be?

Ms. **Rollins**. I earlier stated my belief is that the DOE or the Federal Government may now enter the marketplace and provide some checks and curbs. The other point that is important to make is simply, because there is knowledge of the legal exchange, upward pressures on the cost of the rationing coupons, I think, will not be as dramatic as they would if this were an illegal exchange.

Mr. **Loeffler**. What would you expect the cost of a coupon purchased in the exchange market to be?

Ms. **Rollins**. The DOE has set forward some prices that they think might be appropriate, and, as I recall, the spread is from $2 to $6.

Mr. **Loeffler**. I didn't understand that.

Ms. **Rollins**. The spread will be a minimum of $2 and a maximum of $6, depending upon the severity of the shortage.

Mr. **Loeffler**. Per gallon?

Ms. **Rollins**. That is correct.

Mr. **Loeffler**. Who would be the recipient of that profit?

Ms. ROLLINS. Well, the chart that is also a part of the testimony and the progress report outlines what we believe would be the flow of funds based on vehicles. That is this area here.

What we have done is range a household according to income. We have also set out, on the basis of average historic use in each of these income classes, what would be the exchange of funds, and this again focuses only on income. And we have gone from a lower income—that is, those under $5,000 right down the traditional range—and someplace in here is Middle America.

What we see in brackets is the outflow of money, those who have to purchase coupons. You will see the exchange definitely takes place and the beneficiaries of this exchange market would be those under the $5,000 income range who get the greatest return in an exchange market, and those in the $5,000 to $10,000 range.

Moving down into the middle class, as we know it, there is an outflow, and the largest outflow occurs, in the upper income-brackets and finally diminishes.

Mr. LOEFFLER. What is the median income of families, on average, across the Nation? What is the median income for families in metropolitan areas and for families in rural areas?

Ms. ROLLINS. I can provide you the average without the cuts, depending upon community density—it is less than $16,000 per household. So that causes us to focus in this range, and what you have is an outflow of about $65 per household.

The interesting thing to look at, of course, Congressman Loeffler, is if we went to the license-based plan, there would still be the outflow of cash, with the beneficiaries being those of low and moderate means, but the outflow from middle income America or low income America becomes much greater. This is another reason we thought it important to base entitlements for coupons on vehicles as opposed to the ownership of a driver's license.

The figures you want with regard to urban and rural, I will have to provide for the record. And I will be pleased to do that. But I think we have done our equity at least in terms of keeping the outflow to lower middle income and middle income families as low as possible using the vehicle registration plan.

[The following statement was received for the record:]

The Bureau of Census will have current figures on the median income for rural and urban families by October 1980. We will use these figures in our preimplementation activities and provide it to you when available.

Mr. LOEFFLER. Thank you, Ms. Rollins. I think your responses to all of us who have posed questions to you today indicate the terrific problems associated with the management of a rationing system. We have pointed out many of the inequitable treatments that would follow as a result of the implementation of a plan like this.

Finally, may I ask a question with respect to the cost?

As I understand it, do you anticipate the preimplementation cost to be approximately $103 million, and that will get you, as Mr. Stockman earlier brought out, to the earliest time of September 1981?

I have read figures that also point out the cost merely to hold this plan on a shelf is between $24 million and $39 million per year. Would you comment about the $103 million, and then the post-preimplementation, cost?

Ms. **Rollins**. Now that we have divided this responsibility for the gasoline rationing plan between those who have designed it and those who would be standing by to preimplement it, I would like to again introduce Mr. Barry Van Lare, who will be the preimplementer, and appropriately let him respond to those questions.

Mr. **Van Lare**. The estimated cost of preimplementation is $103 million, as indicated, Mr. Loeffler. Significant elements of that cost relate to the printing of the coupons, to the checks that will be needed to operate the system, but particularly to the development of the eligibility files, the basic information that is necessary in order to identify the individuals, their names, addresses, amount of gasoline they are entitled to.

One of the functions of preimplementation will be to estimate in detail the cost necessary to maintain this kind of a system on a standby basis. The numbers that you have mentioned, between $25 million and $39 million, I don't think are out of the ballpark in terms of what that will be, but we don't have a specific estimate at this time.

Mr. **Loeffler**. When you look at the number, then, of $464 million, what does that apply to, in the scenario that you are outlining for us?

Mr. **Van Lare**. The basic steps in this process are preimplementation, maintenance of the plan, mobilization, and then operation. The $464 million is our current estimate of what it would cost us during that 90-day mobilization period to actually put the plan in place and begin its operation at the end of that 90-day period.

Mr. **Loeffler**. What we are looking at prior to implementation is in excess of one-half billion dollars to be expended by the Federal Government. The 30,000 approximate number of employees at the Federal and State and local level is in addition, then, to the amount in excess of one-half billion dollars?

Mr. **Van Lare**. The $2 billion figure is the estimate for operating this program for a full year. I think in looking at those numbers that it is important to relate not only the magnitude of the $2 billion figure, which is certainly a substantial investment, but also to relate that to the size of the operation that we are talking about. We are talking about a system which is designed to produce on a quarterly basis coupon allotments for 150 million, which is a figure that, when you compare it with social security, which currently serves 35 million households, I think gives you an idea of the magnitude of it in terms of its operation and complexity and size.

Mr. **Dingell**. The time of the gentleman has expired.

The Chair recognizes the gentleman from Ohio, Mr. Brown.

Mr. **Brown**. I have no questions, Mr. Chairman.

Mr. **Dingell**. The Chair recognizes counsel for the purpose of asking questions.

Mr. **Schooler**. Returning to the question of the cost of the program, I understand that you now intend to use a coupon that is significantly different from the coupons you showed us at our earlier hearings. Could you describe what these coupons will be like?

Mr. **Van Lare**. While the final decision as to the design of the coupons has not been made, basically we are looking at a coupon which will have additional security features and a coupon which will be processable by basically currency or check processing equipment, so we will be able to build the audit trails and accountability into the system that we think are necessary.

Mr. **SCHOOLER**. First, regarding the size, do you mean they will be large coupons?

Mr. **VAN LARE**. They will be approximately currency size.

Mr. **SCHOOLER**. Second, you state you are going to use a lithograph coupon rather than the current coupons which are more like our traditional currency. Can you discuss the consultations you have had with the Treasury and Secret Service concerning problems with respect to counterfeiting?

Mr. **DINGELL**. If counsel will yield, lithograph is a well-known method for counterfeiting, and I think counsel is expressing his concern and that of the committee that, although we were not sure that the old system would provide the necessary protections, the new coupons being printed by a more easy mechanism to counterfeit you may provide not a lesser number of counterfeiting and criminal problems, but rather a greater number.

Mr. **VAN LARE**. It is my understanding that the question of coupon design has been discussed extensively with the Secret Service, the Treasury, and the Bureau of Engraving and Printing, and that the design of the coupon, the design of the security features, the security paper, itself, are viewed by the Secret Service as providing the type of security counterfeit deterrence necessary in order to operate the system effectively. We will work closely with those departments of the Government to assure sufficient security is built into the system.

Mr. **DINGELL**. Do you propose to serial these so they will be numbered? The originals were not.

Mr. **VAN LARE**. These are intended to assign serial numbers to the coupons.

Mr. **DINGELL**. The original were not.

Mr. **VAN LARE**. That is correct.

Mr. **DINGELL**. You have had major problems running almost double the printing cost where you have run them through some kind of enumerating machine. Have you addressed the problem of cost relating to serializing your coupons during the first printing or first lithographing proposed during the subsequent operation?

Mr. **VAN LARE**. The budget that was forwarded last week, Thursday, includes the cost of serializing the coupons. I am not positive whether that was a two-stage process or one. I believe it is intended to be a one-stage process.

Mr. **DINGELL**. This committee expressed a great deal of concern over the physical capacity of the industry to provide the coupons within a timely fashion, properly numbered and enumerated, to provide for accountability. Have you addressed that problem through the lithographic process that you are proposing to use?

Mr. **VAN LARE**. One of the factors in the selection of the lithograph process, once we were convinced security needs could be met, is that there appears to be a greater capacity in that area of printing than there is in the intaglio printing capacity.

Mr. **DINGELL**. It also, in the view of the Chair, is easier to engage in counterfeiting or to make a product more susceptible to counterfeiting. I would like to receive from you privately, at least initially, some statement of the steps taken in terms of consultation with the Treasury and the Secret Service with regard to counterfeiting and avoiding the evil consequences of counterfeiting through this new medium that you propose to use because I am apprehensive it affords a splendid opportunity for persons of illegal bent to make a very happy living.

Mr. Brown. Would the Chair be willing to share that information with me, in view of the fact I make a living, not always happy, in the printing business. I don't want to further worry the witnesses, but I tend to agree with the Chair on the point he is making.

Mr. Dingell. Sure. The Chair thanks the gentleman, and he certainly will, subject only to the caveat that the gentleman promises not to go into the lithograph business.

Mr. Brown. It depends on how things go, Mr. Chairman.

Mr. Dingell. Thank you.

Counsel?

Mr. Schooler. Also, with respect to the cost of the program, the plan states fees may be charged for applications by businesses establishing their base period usage. Are those application fees permissible under present statutory authority?

Mr. Schaumberg. Yes, the fees for business applications would be recoverable under present statutory authority.

Mr. Schooler. Your supplemental states you intend to have 100 people in your rationing office; is that correct?

Mr. Van Lare. That is correct.

Mr. Schooler. We heard about a half a billion dollar number. As I understand it, it is a $100 million for preimplementation. If the plan is never implemented, we are talking about something like $25 million per year. Is that correct?

Mr. Van Lare. In that general range; yes.

Mr. Schooler. The half a billion applies only if the plan is implemented?

Mr. Van Lare. The half a billion essentially was the additional $460 million necessary during the 90-day mobilization. Once it has been decided to use the plan, that is the mobilization expenditure which would basically bring the plan and operate it during the first quarter.

Mr. Schooler. Your request for supplemental appropriation includes $10 million for State and local functions. One of those functions is listed here as "NGA contract." Can you explain what that is?

Mr. Van Lare. That, I believe, refers to the National Governors Association, and basically is to provide us with a resource in dealing with the States in developing some of the technical assistance required to the State in developing their own plans.

Mr. Schooler. You have $7 million under the heading "Develop State Plans," $7.4 million. I am not sure what the difference between that is and the $550,000 for "NGA contract."

Mr. Van Lare. I think we are dealing with a process that will go through a number of stages. One of the first steps is one which the Federal Government, itself, must do, which is to specify the content and the requirements for that plan, some of the initial elements of which are in the proposed regulation, itself.

Second, the States must prepare their individual plans, the detailed description of what they will do and how they will do it. The $7.4 million is basically designed to reimburse the States for those planning activities that they will undertake.

In addition to that, we envision that there are circumstances in which, in order to assist States in doing their work, that it will be desirable to provide them with technical assistance for particular aspects of plan development, and that NGA contract, as well as our own staff resources, will be used, at least in part, for that function.

Mr. SCHOOLER. So, in other words, the $7 million that will be under the "Aid and Develop State Plans" will be grants of money; no assistance involved in that $7 million, other than financial assistance?

Mr. VAN LARE. I think it is largely intended to be financial assistance so they will have the resources for doing this work we are asking them to undertake.

Mr. SCHOOLER. We have some questions concerning the ability of businesses to buy coupons and have a tax break because of the fact those purchases are tax-deductible. We have been a little confused here concerning the taxable status of the coupons, their receipts.

Mr. Schaumberg, you seem pretty certain about what type of legislative action would be necessary if one were to change the rules with regard to business purchases of coupons. If a business receives a certain number of coupons, is the receipt of those coupons considered taxable income?

Mr. SCHAUMBERG. Well, I am not a tax expert. We have been exploring this with the Internal Revenue Service, and at this point they have not given us a definitive interpretation under the existing tax laws as to whether the receipt of the initial distribution of rationing coupons from the Government by either business or individuals would constitute income.

Mr. DINGELL. Would the gentleman yield?

I think this is a question which is important from several standpoints, and let me try to enumerate them. I think it is important for us to know, one, whether it is taxable income to an individual or a business when he sells his coupons; two, whether the purchase is a tax-deductible or nontax-deductible item.

I would like to know whether a business, that is, a corporation, or a private citizen is treated differently in these matters under the law, because I think these are important questions.

I also would like to know what your recommendations are on this, and what the response and the recommendations of the Department of Treasury would be on this, because I think these are questions that will have to be addressed.

Last of all, we would like to know who it is you will be dealing with in the Treasury Department, so we can pursue these matters ourselves and try and be able to make clear to them the strength of our views. You may not have the same success having the strength of our views understood as we might have in dealing directly with them.

Mr. SCHAUMBERG. We would be happy to provide you with that information.

Mr. DINGELL. Please. Thank you.

[The following information was received for the record:]

The following officials have been designated by their respective agencies to work with the Department of Energy on the issue of tax exempt status:

Commissioner of Internal Revenue Service
Jerome Kurtz 566-4115
Assistatn Commissioner, Technical IRS
Assistant Secretary for Tax Policy
Department of Treasury
Donald C. Lubeck 566-5561

Mr. DINGELL. Mr. Schooler?

Mr. SCHOOLER. There were statements made concerning the ability to amend the program after the Congress approves. Can you explain briefly what requirements exist with respect to any future amendments of the plan?

Mr. SCHAUMBERG. The plan amendment process was specified in the EECA, as I recall, and requires that for an amendment to the plan, that it be submitted to the respective committees in the House and Senate, and that at the end of a period of 15 days, then that amendment would go into effect.

Mr. SCHOOLER. Hearings are also required, are they not?

Mr. SCHAUMBERG. It just says:

> A period of 15 calendar days of continuous session has passed after the receipt of the proposed amendment by the Committee on Interstate and Foreign Commerce of the House of Representatives and the Committee on Energy and Natural Resources of the Senate, or each such committee before the expiration of such period—as the 15 days—has transmitted to the President written notice stating in substance that such committee has no objection to the proposed amendment.

Mr. SCHOOLER. The amendments, though, are also subject to the procedural requirement of section 523 of EPCA?

Mr. SCHAUMBERG. That is correct. Any amendment as well as any regulation which we would issue would be in accordance with section 523, which ties into the Administrative Procedure Act.

Mr. SCHOOLER. The decision to implement rationing is also subject to a congressional veto; is that not correct?

Mr. SCHAUMBERG. Well, the statute provides the President must submit the plan to Congress for review over a period of 15 days.

Mr. SCHOOLER. The statute requires the President transmit and Congress shall have an opportunity to consider implementation?

Mr. SCHAUMBERG. The statute provides that either House may disapprove.

Mr. DINGELL. If I could, I would like to pursue some concerns I have. Let's take a series of situations. If a corporation buys a coupon, let's say, for $4, and it is a tax-deductible item, the corporation may pay approximately $2 or a little more for its gas. If it then makes that gallon of gasoline available to one of its corporate executives, does that then constitute additional income to the corporate executive who receives it? It is a question I don't expect an answer to at this particular time, but I would like to know about it.

If the corporation gets an amount of gasoline which is greater than its needs, and it then decides to go out and sell this gasoline on the white market, does this constitute additional income to the corporation?

And is there a mechanism for the Department of Energy to review and ascertain whether we are not then subsidizing corporations that, in fact, have no need for the fuel to the detriment of other corporations or other private citizens?

I would like to know whether there is going to be some kind of system to ascertain whether or not this is, in fact, going to be able to be done, to periodically review of the needs of different users of coupons.

Then a question arises in my mind as to what happens if a private citizen goes out and sells his coupons. How is he treated? Is this income? If he goes out and buys, if he is treated the same as a corporation, his taxable earnings might run quite different on the selling. Is it going to count essentially as a loss for tax purposes if he has to buy these coupons?

I would like to know what your discussions with the Treasury lead us to on these particular points.

I thank you.

Counsel, you are recognized.

Mr. SCHOOLER. To continue on that, there are additional problems concerning the so-called traveling salesman, his receipt or sale of coupons. To what degree are those coupons attributed to his business uses versus nonbusiness uses?

We ask these questions because your answer suggested that, if the Congress wished to deal with the issue of taxability or the ability to deduct the cost of the coupons to businesses, that could be done through an amendment. We would like to know more about the other implications. Are there tradeoffs on the other side? How is the taxability of these coupons——

Mr. SCHAUMBERG. I hope you didn't misunderstand one of my earlier responses. I did not mean to suggest that we would deal with the taxing issue through any amendment to the rationing plan.

Mr. SCHOOLER. We would be interested in those answers.

Mr. SCHAUMBERG. We will be happy to provide them to you.

Mr. SCHOOLER. The gasoline rationing plan was considered in the Congress as a measure of "last resort." An earlier step would be the development of State conservation plans and the implementation of mandatory targets. Can you tell us what is the status of the State plans at this point?

Ms. ROLLINS. I have difficulty telling you exactly what the status of the State plan is. I can run through the timetable that the DOE has established, first of all, in publishing the guidelines for submission of the plans, and finalizing its own plans.

My vague recollection is—wait a minute, I might be able to get some better information if you will just bear with me.

None of us here can give you definitive dates. I am aware of the fact we have published the plans and are about to go final with the Federal plans. The last time I visited this issue closely, a timetable was to have been established sometime in February or March for the beginning of the implementation period for the State plans. What the review process is, I am not quite certain.

Mr. SCHOOLER. Can you explain the implementation period for the States? Are you talking about conservation?

Ms. ROLLINS. That is correct. States have to take some time, and also are directed to hold public hearings on the whole question of what plan might be appropriate in an individual State. I quite frankly have lost track of that. It will take a quick phone call to get refreshed by the people in conservation, and I would be pleased to provide that information for the record.

[The following information was received for the record:]

State Plans

As you know, Section 212 of EECA requires the States to submit emergency conservation plans to DOE within 45 days after the date of publication of emergency conservation targets by the President, acting under authority provided to him under Section 211. However, prior to such formal publication of emergency targets, the States are under no obligation to submit plans; although the legislation "encourages" early submittal for tentative approval. In addition, EECA, in Section 213, requires that DOE establish, under formal rulemaking procedures, a standby Federal emergency conservation plan. The standby Federal plan is intended to serve a dual purpose: First, it is to set forth with some precision, with the specific emergency conservation measures that the President could implement in any State that he found was not substantially meeting its targets, after a reasonable time had elapsed. Second, the standby Federal plan is to provide a degree of guidance to the States with respect to the types of emergency measures which they could incorporate into their own plans; although, the States are under no compulsion to adopt any of the standby Federal measures.

On February 7, 1980, DOE's Office of Conservation and Solar Energy published in the Federal Register the initial edition of the standby Federal plan, which contained a number of standby measures, as well as a section that outlined the general criteria for State plans. Eight public hearings were held and more than 57,000 pieces of mail were received during the public comment period. Conservation and Solar is continuing to review the testimony and comments, as well as its own economic and regulatory analysis of the plan and I understand, plans to publish final rulemaking in mid-September.

The situation is not so clear with respect to the status of State plans, per se. To date, no State plans have been formally submitted to DOE for tentative approval. In large part, I am told, this is because many of the States were awaiting resolution of the financial assistance issue, which centered on a DOE supplemental budget request for fiscal year 1980, which would have made a sum of $10 million available for State grants to support emergency conservation planning. (That request was rejected by Congress in the fiscal year 1980 Supplemental package.)

Conservation and Solar currently is attempting to reprogram some of its fiscal year 1980 budget in order to expedite the State planning process. If it is unable to do so, full-scale State planning probably will be deferred until after the fiscal year 1981 budget is released. In the meantime, however, I am advised, Conservation has taken other steps to allow states to apply some of their State Energy Conservation Program budgets, under EPCA and ECPA to emergency conservation planning; but, as an option, not a mandatory measure in the State Energy plan.

The bottom line, with regard to State contingency planning under Title II of EECA, is that the states are under no legal obligation to either devise or submit emergency conservation plans until after such time as the President formally establishes mandatory conservation targets, which he has not yet done.

As I indicated, EECA requires only that the States submit their plans within 45 days after the President has established mandatory targets for the Nation as a whole, and for each State. Upon receipt of these plans by DOE, we have a maximum of 30 days to approve them, or if appropriate, reject them for good cause and attempt to negotiate a suitable revision. Upon approval, the State would proceed to implement its plan, and would continue to do so for as long as the emergency continued, unless the President finds that a State is not substantially meeting its targets, it is likely that those targets will continue unmet, and certain other conditions apply. In that event, and after consultation with the Governor, the President could invoke in that State any or all of the standby Federal plan, as would be suitable for that State. I should add here that, according to the provisions of EECA Title II, it is really not necessary for a State to submit a plan to DOE. If a State should fail to present a plan to DOE and yet meet its emergency conservation targets, there would be no need, nor indeed is there authority, to invoke the only available sanction, that is, implementation of the standby Federal plan within such State. This fact may explain, in part, also the apparent reluctance, thus far, of the States to submit emergency plans to DOE.

On the other hand, there is not a total vacuum in this area. The States indeed are concerned about contingency planning and many States, and even a few cities and metropolitan areas, are proceeding to devise plans or improve upon old plans. It is clear that there is recognition among the States, generally, that, during a fuel emergency, their role is crucial and their problems are immediate.

Mr. SCHOOLER. In the committee's report on the Department of Energy's authorization, the concern of a number of the members of the committee was expressed that the conservation program under EECA and the rationing program under EECA should be administered as a single unit of contingency plans, yet the Department has divided the responsibility between your agency and the conservation office. I think we are seeing today that you are somewhat unaware of the conservation portion of that program, and I am wondering whether the Department reconsidered, as the committee requested, the organization of the responsibilities?

Ms. ROLLINS. Let me first clear this up. We are unaware of the processes as to where they are today, simply because it is all the ERA can do to sort of keep up with its own timetable. I think the fact there is now created in the Department an office for gasoline rationing recognizes, first of all, that that assignment was not appropriately in the ERA. I am not aware that the Department has made any further visit with regard to whether the assignments for the gasoline conservation plans should be moved.

I would say this personally, having been the head of the Office of Conservation of one of the predecessor agencies to the Department, my view is that the working of those conservation plans is appropriately in that office, since that is the Office of Conservation and has pretty much day-to-day contacts with the States. The work for the conservation elements, themselves, is being done by part of the State energy office that deals with the Office of Conservation and DOE almost on a daily basis.

What will finally wash out in terms of the relationship of Mr. Van Lare's office and the States, I think will be a similar relationship where they are in touch with each other daily. This has never been the case with the ERA except for a small office which provides information on really how the regulations work. So I think we are getting closer to the design that this committee seems to prefer.

Mr. SCHOOLER. First, is the rationing office within ERA?

Ms. ROLLINS. Good Lord, no.

Mr. SCHOOLER. It will be a separate office?

Ms. ROLLINS. It is today a separate office. Some of its administrative work is done by my administrative staff, but this office reports to the Secretary of Energy through the Office of the Chief Financial Officer of the Department and is no longer a part of the ERA and has not been a part of the ERA for about 2 months now, is my recollection.

Mr. SCHOOLER. We were not given the information on the organization.

Ms. ROLLINS. Well, I want to say this: The last time I appeared before this committee, I indicated that such a recommendation had been made to the Secretary, and such a recommendation had been accepted. We have not brought Mr. Van Lare to see you before now, because frankly this is the first opportunity we have had to visit with you. I will see that the mission and function statement of that office and the correct organizational charts are forwarded to you today.

Mr. **Schooler**. I would also appreciate it if we could have for the record, the Department's comments concerning the committee's report on the Department of Energy authorization with respect to the responsibilities both of the Office of Conservation and ERA over the various titles of EECA and the rationing office.

[The information requested was not available to the subcommittee at the time of printing.]

Mr. **Finnegan**. Can you also tell us whether the other emergency functions are now being located within the Department? It sounds like we are going to get emergency functions spread out in a whole series of places. During the last emergencies relative to the coal strike, ERA had, as I remember, a significant role concerning emergencies, and had a lot of contact with the States at that time.

Now you are pointing out that the State plans are in the conservation side of the Department before it has contacts with the States. You are having a rationing office that is also having contacts with the States, plus you have several other offices within the Department that are doing the same thing.

Is it sound to have three or more separate organizational units within the Department conducting emergency planning, emergency operations, when they are not necessarily directly related one to the other or necessarily know what the other is doing, and each of them is contacting the States separately?

Ms. **Rollins**. Let's start from the beginning. I want to outline where the responsibilities are for various planning efforts, and, more important, implementing efforts.

You will recall that during the coal strike, as you have indicated, the ERA had a very active role to play. Whenever anyone is experiencing a shortfall, those emergency authorities which have to do with the allocation program, with emergency or voluntary interconnections of utility transmission lines and the sale of power by wire, and natural gas issues, all reside in the ERA. For that purpose and at that time it was most appropriate that the ERA, as the operational unit of the Department responsible for implementing those emergency authorities, be the operational head of that effort.

Mr. **Finnegan**. Excuse me, they reside in ERA, not by statute, but by organization?

Ms. **Rollins**. I certainly did not mean to imply they resided there by statute. That was a decision made by the then Secretary of Energy Jim Schlesinger in his transitional planning, and remains unchanged under Secretary Duncan.

Mr. **Finnegan**. The point is that you now have three different organizations. Is that a sound decision, to have it separated like this?

Ms. **Rollins**. All right. I am trying to chit these off as carefully as I can, and not get disjointed. With regard to the gasoline rationing preimplementation, I suspect at the strong urging of the Administrator of ERA, that the function of preimplementing this program be put within an office that had no other major responsibilities. I have testified before this committee previously, and certainly has everybody else, the design of this program pales against any other Federal program I have ever heard of, and to presume it could be done in the ERA while they conducted other activities was, in my view, not a very good idea.

With regard to the planning or the contingency planning function which has recently been assigned to the ERA, again, that effort recognizes the fact that in previous years the contingency planning functions of the Department, that is, the drawing of the scenarios of shortfall which the Department might have to respond to, or more important, the modeling of what would be the consequence of those shortfalls with regard to what product would be in short supply, what distribution disruption would be, have always been assignments up until about 2 months ago in the Office of Policy and Evaluation, which undertook to discharge that responsibility through a series of task forces which quite frankly never worked, and a review took place in the Department and a decision was made to give that assignment to the ERA.

Mr. FINNEGAN. When was that?

Ms. ROLLINS. It was made about a month and a half ago and formalized perhaps 2 or 3 weeks ago, and some transfer of staff and functions from the Policy and Evaluations Office and from the Energy Information Administration has taken place. There will be a separate Office of Contingency Planning with its own Assistant Administrator reporting to the Administrator of the ERA, through Bart House, the Deputy Administrator for Operations and now Emergency Planning. That is, you know, as a matter of "boxology" not much different from the old ERA, which had an Office of Regulations and Emergency Planning, and that is where the contingency planning function took place until it was transferred to the Office of Conservation, and where the gasoline rationing planning took place.

I think what we see here is a department making some distinction between how its planning is done, the removal of the contingency planning office from Policy and Evaluations where it was a task force effort undertaken by ERA and Conservation, over to ERA, recognizes, first of all, you shouldn't get that work done by task force, and perhaps, more importantly, it should be done in a discrete office that has no other responsibilities.

Mr. FINNEGAN. Can you provide for us an organizational chart for each of the three organizations, for all emergency planning and otherwise regulatory functions within the Department?

Ms. ROLLINS. I would be pleased to do that, Mr. Finnegan.

Mr. FINNEGAN. And indicate who is in these various positions and how many positions are assigned to these various functions.

Ms. ROLLINS. We will do that for you today.

[The following letter was received for the record:]

Department of Energy
Washington, D.C. 20461

June 23, 1980

Mr. David Schooler
Counsel, Subcommittee on Energy
and Power
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Schooler:

As requested at this morning's hearing on the Standby Gasoline Rationing Plan, I am enclosing a copy of the organizational chart for the Gasoline Rationing Preimplementation Project Office and a memorandum from Deputy Secretary Sawhill approving the establishment of that office.

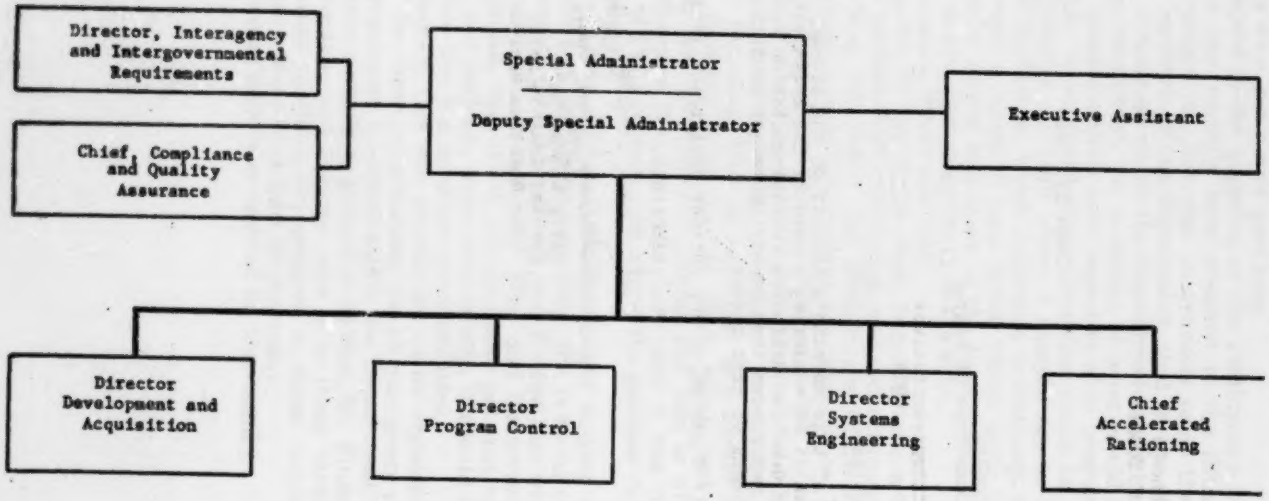
Please call if I can be of any further assistance (653-4133).

Sincerely,

Barry L. Van Lare
Special Administrator
for Gasoline Rationing

Enclosures

Gasoline Rationing Preimplementation Project Office


Director, Interagency and Intergovernmental Requirements
Chief, Compliance and Quality Assurance
Special Administrator
Deputy Special Administrator
Executive Assistant
Director Development and Acquisition
Director Program Control
Director Systems Engineering
Chief Accelerated Rationing

May 13, 1980

THE SECRETARY OF ENERGY
WASHINGTON, D.C. 20585

MEMORANDUM FOR: Chief Financial Officer
Administrator, Economic Regulatory Administration

FROM: John C. Sawhill

SUBJECT: Gasoline Rationing Preimplementation Organization

I approve the establishment of the Gasoline Rationing Preimplementation Project Office (GRPPO) recommended in your memorandum of March 5, 1980. The Project Office Director will report to the Chief Financial Officer. Mr. Barry Van Lare will assume the Director's position upon his transfer to DOE on April 28, 1980.

Funding for staffing and contractual services is included in a pending supplemental budget request for Fiscal Year 1980. Prior to Congressional approval of that request, staffing for the immediate needs of the Project Office will be met by functional transfer of positions and personnel and detail of personnel from other DOE organizations. Funding for immediate contractual services requirements will be made from the Emergency Preparedness line item of the Economic Regulatory Administration appropriation.

Before you announce and implement the organization plan, consult with the Office of Personnel to assure that it meets all necessary labor relations obligations.

This project is of high priority within DOE to assure that the Administration meets it's Congressional obligations under the Emergency Energy Conservation Act. Proceed rapidly, consistent with a quality job.

cc: Director, Administration

OFFICE OF ENERGY CONTINGENCY PLANNING

MISSION

The Office of Energy Contingency Planning is responsible for ensuring that DOE has contingency plans for response to those energy emergencies which can reasonably be anticipated and is responsible for development of emergency action plans during the actual crises.

FUNCTIONS

1. Systems Analysis Division

   a. Develops scenarios profiling energy emergencies which can be anticipated. Scenarios would include definition of the type and extent of disruption, affected area, duration, and supply distribution systems likely to be affected.

   b. Determines and analyzes the social, economic and supply impacts of the various response possibilities.

   c. Evaluates the probable consequences of planned responses on international, Federal and state governments and individuals, and conducts post-mortem analyses when appropriate.

   d. Identifies requirements for additional contingency response measures.

2. Plans Development Division

   a. Defines responses to the various scenarios and identifies those responsible for taking approved actions and the time phasing required to implement the necessary sequence of events. Includes consideration of specific actions to be taken by international, Federal and state agencies as well as industry and individuals.

   b. Develops general plans for responding to each of the scenarios including identification of specific implementation authorities and tasks, and organizational assignments. Defines inter-relationships of implementation assignments to ensure efficient coordination of participants and responses. Coordinates proposed plans with all affected parties prior to

Office of Energy Contingency Planning (Cont'd)

completion to ensure that all general plans are comprehensive, feasible, efficient and well understood by those responsible for implementation.

c. Identifies requirements for rulemakings and legislation in support of general contingency plans.

d. Identifies impediments to plan implementation and coordinates activities with others to develop solutions.

3. Management and Communication Division

a. Determines the need for and arranges information, communication and logistical systems to support other divisions during planning and responses to emergencies making maximum use of existing systems and facilities.

b. Maintains liaison and coordination of activities with the Gasoline Rationing Project Office.

c. Provides appropriate staff support to the Energy Emergency Management Group.

d. Develops means for test and evaluation of the usefulness of response plans.

e. Maintains liaison with the Energy Emergency Management Information System (EEMIS) and other systems of information needed by government decision makers responsible for dealing with energy emergencies.

f. Maintains liaison and coordination with ERA's Energy Liaison Center (ELC) to assure that other government agencies as well as state and local governments are informed on matters relating to energy contingency planning.

Mr. **Finnegan**. The second question I have is who in the Office of Conservation is in charge of title II of ECAA?

Ms. **Rollins**. His name is Henry Bartholomew. He reports to Melvin Chiogioji.

Mr. **Finnegan**. What is his title?

Ms. **Rollins**. He is Deputy Assistant Administrator for State and Local Assistance Programs.

Mr. **Finnegan**. How many positions do they have?

Ms. **Rollins**. I don't recall offhand, and I would have to provide that for the record.

Mr. **Finnegan**. We would like to get more information on it.

Ms. **Rollins**. We will be happy to provide it.

[The following information was received for the record:]

The Office of Emergency Programs has 12 positions authorized and ten of these positions filled as of August 1, 1980.

Mr. **Finnegan**. The last question I have concerns the study that was required in EECA for storage of gasoline. What is the status of that study?

Ms. **Rollins**. If you will bear with me.

Mr. **Finnegan**. Section 241.

Ms. **Rollins**. If you will bear with me a minute, and let me read with you.

Mr. **Finnegan**. Due 180 days after enactment.

Ms. **Rollins**. Well, again, I will have to read this carefully, but it is my view that twice a year, every 6 months, we live up to this mandate and provide a middle distillate report to the Congress and testify on same.

Mr. **Finnegan**. Just provide it for the record.

Ms. **Rollins**. I see, you are talking about the commercial and industrial storage of fuel. I am almost certain this is not the responsibility of the ERA, because I would be aware if I had slipped it. It is in the SPRO office.

Mr. **Finnegan**. Thank you. No further questions.

Mr. **Dingell**. Ms. Rollins, we thank you for your assistance to the committee. We thank your associates.

The Chair will, by a way of housekeeping, advise that we hope you will make available to us the contents of the charts in the appropriate form for inserting in the record, and, without objection, they will be inserted in the record.

The Chair observes there are a number of documents referred to and alluded to by staff in connection with questions, and, without objections, these will be inserted in the appropriate places in the record.

Is there further business to come before the committee?

The Chair should advise that counsel has advised the Chair that we will be proceeding with the hearing speedily. We do anticipate the matter may very well be on the floor at a very early time, and we hope you will get the information to us.

Ms. **Rollins**. Thank you, Mr. Chairman.

Mr. **Dingell**. The committee will stand adjourned until Friday next, when we will go again into this same question.

[Whereupon, at 12:05 p.m., the subcommittee adjourned, to reconvene Friday, June 27, 1980.]

1980 STANDBY GASOLINE RATIONING PLAN

FRIDAY, JUNE 27, 1980

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ENERGY AND POWER,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2123, Rayburn House Office Building, Hon. Richard C. Shelby, presiding (Hon. John D. Dingell, chairman).

Mr. SHELBY. We will call the committee to order.

Without objection, the Chair wishes to place in the record as though read an opening statement from Congressman Clarence J. Brown. Congressman Brown is the ranking minority member of the subcommittee.

OPENING REMARKS OF HON. CLARENCE J. BROWN

Mr. BROWN. Mr. Chairman, today we convene a second day of hearings into the Carter administration's second rationing plan. The bottom line on this rationing plan is that it would waste billions of taxpayer dollars but not prepare the Nation to manage a catastrophic energy shortage.

Congress rejected the first Carter plan last year by a vote of 159 to 246, and later, in the Emergency Energy Conservation Act, the Congress sent the administration back to the drawing board. We in the Congress realize how pervasive rationing is—potentially the single largest grant of regulatory authority to the Government in peacetime.

The Carter administration has, however, not only ignored the signal we sent them in our overwhelming rejection of the first plan, but also treated the preparation of this plan cavalierly. The result is another inequitable, unworkable rationing plan. The principal difference from the first plan is that under this second one a variety of special interest groups would receive special treatment under it—but the majority of Americans are treated no better.

In fact, this second plan is so vague that it is no plan at all. Congress is being asked to sign a blank check—every aspect of this plan can—and likely will be—changed by DOE after this congressional review period expires. To add insult to injury this is by DOE design.

At Monday's hearing, I asked the head of DOE's Economic Regulatory Administration, Hazel Rollins, if the DOE would change the plan after Congress has approved it. I quote from the transcript:

> Mr. BROWN. But these regulations are only broad general guidelines, because you are telling me there is no plan for the distribution of coupons among the States, that is still in negotiation, and there comes the rub.

Ms. ROLLINS. That is certainly true and it is the Department's intention, as we stated both publicly and in the document that, of course, there will be a need to continue to regulate, to put the frame, put some meat on this framework.

Mr. BROWN. After we approve it?

Ms. ROLLINS. Of course after it is approved.

Mr. BROWN. Of course.

Mr. Chairman, take a close look at this second rationing "plan". You will quickly realize how little substance we are being asked to accept. As responsible representatives, we cannot escape our responsibility for an unfair and unworkable plan which would only worsen the serious shortage it is intended to manage. We should disapprove this standby gasoline rationing plan.

Mr. SHELBY. Our first witness at the public hearings on the standby gasoline rationing plan will be Congressman Ben Gilman from New York State.

Congressman, good morning to you. I am glad you are with us today. I know you have some written testimony. You have been on the Hill longer than I have; and if you would sum up what you have, we would appreciate it. Go ahead.

STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. GILMAN. Thank you, Mr. Chairman. I welcome the opportunity of appearing before you on the President's standby gasoline rationing plan, a plan which I feel is unacceptable, and I appear before you today to ask that you report out a resolution rejecting it.

On June 13, the day after the plan was presented to the Congress, I introduced House Joint Resolution 571, the first resolution calling for the disapproval of this plan. I urge that you report out either that resolution or House Joint Resolution 575, which was introduced by Mr. Brown of Ohio and which I have cosponsored along with Mr. Stockman, Mr. Ambro, and a good many other Members.

The President's gasoline rationing plan is unfair, and, in addition, it gives to the administration a blank check to continue to tinker with it without any effective supervision by the Congress.

The plan is unfair because it lumps together, for the purposes of determining each auto owner's allocation of gasoline, all of the owners in a State. This flies in the face of a policy of fairness and equity, which should, in my view, provide that as far as possible, all Americans cut back their gasoline usage by a similar percentage. In the time of an emergency, our political system will be under severe strain. It is important that the gasoline rationing plan be fair and be perceived to be fair by everyone.

But how can it be fair for an ex-urban driver in my area, for instance, Orange County, N.Y., to receive a different allocation than a driver just across the State line in neighboring Pike County, Pa., but the same allocation as a driver in Buffalo or Brooklyn?

It would have been much more equitable if the Energy Department would have proposed to make equivalent cuts in energy consumption calculated on a regional or county basis. Firms are permitted, under this plan, to present information on their consumption in a base period for possible cuts. This information can certainly be obtained for political or geographic units smaller than whole States.

A rural driver in one State may receive practically half again as much gas as a rural driver in another State; by the same token, a city driver in one State may receive far less than a city driver in another State—the difference being mainly a result of the mix between urban and rural usage patterns for the States taken as whole entitles.

Preliminary figures for allocations to States have been provided to me by the Library of Congress, and I will, with the permission of the Chair, attach them at the end of this statement and ask that they be printed in the hearing record together with my statement [see p. 122].

The Energy Department, with all its consultants and contractors, has not been able to do a very good job in formulating this plan. It labored for months and months and brought forth a mouse—and a cloned mouse, at that—practically a twin to the plans we have seen in the past.

Frankly, Mr. Chairman, I anticipated that this would happen, and last year, along with my colleagues, I resisted legislative efforts to make it harder for the Congress to disapprove proposed plans. I knew that if the Energy Department did not have the threat of easy disapproval hanging over its head, it would send up the kind of inadequate program we have before us today.

The documents sent to us by the Department of Energy indicate, for instance, that they do not consider this plan to be unfair to individuals living in suburbs, rural areas, and other mass-transit-poor parts of our Nation. They say that people living in rural areas have plenty of cars and that they should be receiving ample ration rights.

This reasoning may be fine statistically, but it ignores the reality of life for a great many Americans. Those not so well off, who live on the outer fringes of our cities or in the countryside and who have to drive long distances to earn a living—and in my area many of them drive 50 to 60 miles each day into the metropolitan New York region—will be most seriously disadvantaged by this plan.

If they have only one car, for instance, in their family, they will have to go, hat in hand, to some kind of local board and see if they can get a few extra ration rights—or they, the people who cannot afford two cars, will be forced to buy coupons from the well to do. How unfair, how demeaning, how inefficient this system is, when you examine it closely.

Another objection I have to this document is that it is just the outline of a plan. The Energy Department, which has brought us so many fiascos in the past, desires authority to continue to tinker with this plan ad infinitum. I hope that this committee will not go along with this power grab, or with any of the other ill-conceived aspects of this plan, and will send it back to the Energy Department for some important reworking. Let's ask them to present a well-defined, substantive plan.

Mr. Chairman, I do not think that rejecting this plan will cause an unacceptable delay in bringing an emergency plan that we can make use of—the kind of program that will be equitable to the entire Nation.

Fortunately, we are not under the gun at the moment. We are not subject to stress and strain of an immediate crisis. The Department still has some time to do on adequate workup, and I hope that we would reject this plan and send a message asking for a better one back to the Department.

The Energy Department has been preparing this plan for an awfully long time, and I suspect that they have a few alternatives sitting on their desks and that they will be able to produce in short order the kind of program that is needed and is wanted by the Congress.

I certainly would support a sense-of-the-Congress resolution setting forth a deadline for the submission of a new alternate plan if we succeed in defeating this one, and I hope that the subcommittee will decide to send the plan back and insist that a better one be produced expeditiously.

I want to thank the chairman and the committee for affording me this opportunity of voicing my opinion.

[The allocation figures follow:]

ESTIMATED MONTHLY ALLOTMENT PER PASSENGER VEHICLE UNDER PROPOSED COUPON RATIONING [1]

State	Ratio of projected gasoline consumption per passenger car to national average [2]	Estimated monthly allotment
Arkansas	1.19	50.0
Texas	1.19	50.0
Mississippi	1.17	49.1
South Carolina	1.16	48.7
District of Columbia	1.16	48.7
Georgia	1.14	47.9
Virginia	1.14	47.9
Delaware	1.12	47.0
Missouri	1.11	46.6
New Mexico	1.11	46.6
Louisiana	1.10	46.2
Arizona	1.10	46.2
Tennessee	1.10	46.2
Nevada	1.09	45.8
Wisconsin	1.07	45.0
Michigan	1.06	44.5
Maine	1.06	44.5
Wyoming	1.06	44.5
West Virginia	1.05	44.1
New Hampshire	1.05	44.1
Vermont	1.05	44.1
Maryland	1.04	43.7
New York	1.03	43.3
Kentucky	1.02	42.9
New Jersey	1.01	42.4
Indiana	1.00	42.0
Alabama	1.00	42.0
Utah	1.00	42.0
Illinois	1.00	42.0
North Carolina	1.00	42.0
Florida	.99	41.6
Oregon	.97	40.7
Minnesota	.97	40.7
Oklahoma	.97	40.7
Iowa	.94	39.5
Ohio	.94	39.5

ESTIMATED MONTHLY ALLOTMENT PER PASSENGER VEHICLE UNDER PROPOSED COUPON RATIONING [1]—Continued

State	Ratio of projected gasoline consumption per passenger car to national average [2]	Estimated monthly allotment
Massachusetts	.93	39.1
California	.93	39.1
South Dakota	.93	39.1
Connecticut	.92	38.6
Alaska	.90	37.8
Idaho	.89	37.4
Nebraska	.89	37.4
Kansas	.88	37.0
Washington	.87	36.5
Colorado	.86	36.1
Pennsylvania	.84	35.3
Hawaii	.80	33.6
Rhode Island	.79	33.2
Montana	.74	31.1
North Dakota [3]	.59	24.8
U.S. average	1.00	42.0

[1] Assumes nationwide average consumption of 42.0 gallons/month as estimated by DOE in: "Progress Report to Congress on the Standby Motor Fuel Rationing Plans." June 1980, p. 5-1—5-4.

[2] DOE calculations, appearing in tabular form in: U.S. Congress. Senate. Subcommittee on Energy Regulation of the Senate Committee on Energy and Natural Resources. Department of Energy's Proposed Standby Motor Fuel Rationing Plan. Publication No. 98–86, Jan. 28, 1980: p. 27.

[3] DOE notes that "the figure for North Dakota may be too low because of apparent inaccuracies in the census estimate of the heavy truck population in the State. An inordinately large number of trucks multiplied by a large allotment index may be causing an overestimate. . . ." Ibid., p. 28.

Mr. SHELBY. Congressman, in New York State what type of district do you have—a rural district?

Mr. GILMAN. I live in an area not too far out of the metropolitan region, a bit west of New York City. It starts as a suburban area in the south and is a rural area in the north. Many of our folks in our area commute into the metropolitan region. We do not have adequate mass transportation facilities. Accordingly, a goodly number of our people are dependent on their automobiles to go back and forth to work each day.

Mr. SHELBY. What would the plan, as you know it; in other words, as you envision the standby rationing plan, what would that do specifically to a district like yours?

Mr. GILMAN. It would create a severe burden. It has been estimated that the average amount of gasoline available would be something like 42 gallons a month, and in order to obtain additional coupons, it is estimated that probably it would cost them, under present market prices, about $1.70 for the additional coupons for each gallon of gasoline, so that we would be talking under present market rates about $3 a gallon for gasoline. So, essentially, I think what we have here is not just a rationing plan but a new tax proposal.

As you recall, we just turned back a 10-cents-a-gallon increase, and here we are talking about an increase that could take us up to $3 a gallon.

Mr. SHELBY. What other proposals do you have? Do you have any specific proposals for a plan or are you just dissecting this one?

Mr. Gilman. I am trying to pinpoint some of the things that are wrong. The allocation by the larger areas certainly is improper, and it should be by smaller regions. I think that with regard to the cost of coupon purchases, that there should be a limitation placed on the kind of price that would have to be paid for additional gasoline. There should be an allowance for areas where mass transportation is not available.

Some people have to rely on their vehicles for their livelihood, and that certainly should be considered in any program.

Mr. Shelby. Do you believe that the Department of Energy, knowing them—and I am assuming you have been in Congress since the Department was created—could administer such a colossal thing as what you are talking about here, a rationing plan?

Mr. Gilman. I am very much concerned about the problems of administration. At my request, the GAO did a study recently on the entire gasoline allocation program, and it was found to be in a horrible mess. The GAO suggested extensive revision and reform. That has yet to be accomplished. If past experience is any indication of the manner in which they have administered some of these complex programs, then I think we have some problems up the road in administering this kind of a complex system. But this shouldn't stop us from asking that these improvements be added.

Mr. Shelby. Congressman, thank you for appearing before the committee.

Mr. Gilman. I thank the chairman and thank the subcommittee.

Mr. Shelby. Is Congressman Nelson here?

Congressman Akaka is here. Congressman, welcome to the committee. We will get started. You know we have a vote on a resolution in a few minutes. We will let you begin if you wish, and then recess the committee, go vote, and come back. Is that all right?

STATEMENT OF HON. DANIEL K. AKAKA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF HAWAII, ON BEHALF OF THE HOUSE TRAVEL AND TOURISM CAUCUS

Mr. Akaka. That will be fine.

Mr. Shelby. You are representing the House Tourism and Travel Caucus?

Mr. Akaka. I am.

Mr. Shelby. Go ahead.

Mr. Akaka. Mr. Chairman, I want to thank you for the opportunity to testify before your subcommittee. I am pleased to be here this morning to testify as a representative of the House Travel and Tourism Caucus, which now boasts 250 members.

Our members are concerned with several elements of the plan which we believe should be addressed before this subcommittee considers a resolution of disapproval. We are convinced that rationing should not be undertaken unless the Nation is facing an acute emergency requiring drastic programs—and make no mistake about it—this is a drastic program.

Under the authorizing legislation, rationing could not be triggered until there is a projected 20-percent shortfall in gasoline supplies. The plan as proposed by DOE does not make clear how the President would make this determination. The answer to that question is crucial to us.

Of great concern is the base period for determining the distribution of ration rights to States. We don't even know what each State would receive if the plan were implemented today. It is most essential that the data used be the most recent available, and that it be computed on an annual basis so that seasonality will be taken into account. We very much fear repetition of the terrible experience of the allocation program last spring and early summer which resulted in adequate supplies in areas where there were few people and shortages in major population areas.

What we find most disappointing is the skeletal nature of this plan. It is most difficult to comment on a proposal which is so bareboned. Those implementing regulations which will be developed during the "preimplementation period" should be part of what we are reviewing today. The purpose of congressional review of such a plan is to give us sufficient information on which to base a decision. We regret that has not been accomplished with this document.

Without this information, we cannot take a firm position. We suggest that this committee secure this information so the Congress can make a reasonable decision on the merits of the program.

I also want to state some other primary concerns that the caucus has. One is that we feel it important that the public believes it can get gas coupons if there are gas coupons to be issued. To put it simply, coupons should not exceed the available gasoline in that area.

Another concern we have is provisions for hardships for priority cases, so each State can meet their practical and unique needs. It is important that there be provision, for instance, for the travel industry components.

Also important to us is that gasoline not be taken out of the marketplace, that it be left in the marketplace. We believe that if this is not done, the public would lose confidence and probably will not support the program.

Another concern is that an extra effort be made to insure that trading coupons does not result, and end up in——

Mr. Shelby. The white-market plan you think is bad? In other words, the coupons, the negotiability of the coupons?

Mr. Akaka. Yes, that this not end up as legalized scalping, so hoarding would not take place.

Mr. Shelby. Actually, why don't we recess the committee and go vote on the rule, if you want to, and then come back?

Mr. Akaka. May I make one more point, and this is my last concern.

Mr. Shelby. All right.

Mr. Akaka. That is, that proper allocation of supplies be made. We feel that this is very critical to the confidence of the people and the program. Thank you very much.

Mr. Shelby. I appreciate your coming by. If you have additional comments to submit to the committee, please feel free to do so.

Mr. Akaka. Thank you very much.

Mr. Shelby. We will recess the committee for about 15 minutes. We have a vote on the floor. Then we will come back.

[Brief recess.]

Mr. Shelby. I am calling the committee back to order.

Is Mr. Dan Richard, adviser to the chairman, California Energy Commission, here?

Mr. Richard, you may proceed.

STATEMENT OF DAN RICHARD, JR., ADVISER TO CHAIRMAN, CALIFORNIA ENERGY COMMISSION,

Mr. **Richard.** Thank you, Mr. Chairman, good morning. Good morning, members of the committee. My name is Dan Richard. I am an adviser to Chairman Rusty Schweickart of the California Energy Commission in Sacramento. We are a multipurpose energy authority, in California, and among the many things that we do in the energy business is worry about oil and gasoline supplies for the State of California, which is the Nation's most populous State, and also one of the fastest growing.

Currently, the State Energy Commission is responsible for a State setaside program under the Federal allocation scheme. That means that we take approximately 5 percent of the gasoline and diesel every month, and hold it aside for emergency and hardship purposes.

We have also been designated under Federal law, the Emergency Petroleum Conservation Act of last year, S. 1030, and concurrent State law, to develop energy contingency plans for all types of energy shortages, with a special emphasis on gasoline shortages. So we have started a comprehensive analytical effort to look at emergency preparedness plans in the gasoline area. This effort has taken us around the country recently to talk with people who have been involved in the petroleum business.

We have studied the administration's gasoline rationing program, and we have tried to look for some alternatives. I think the central message that I would like to convey is that while it appears that some form of emergency standby plan is going to be needed, just so we have something we can do in times of a shortage, we are very concerned about the coupon rationing plan that has been proposed. Given our experience on the frontlines in gasoline shortages, we have severe doubts that this plan would work as it is presently configured.

The coupon rationing approach is going to be extremely expensive and difficult to establish. What we are really talking about here is a brandnew currency system for the United States. We will not only have the ration coupons, we will have the white market. Approximately every quarter, ration coupons that are twice the size of the current money supply are going to turnover.

Nobody knows how this system is really going to work, once it gets into place. We don't know what the white market will be like. In fact, one of our big concerns is, whether the gasoline be where the coupons are. The current system of distributing gasoline and fuel around the country seems inflexible to us, especially in California. We are not sure that no matter how many coupons a person has, or how many they are able to obtain, that the gasoline will be there when they want it.

If that situation occurs, we are going to face an even greater panic among the public, who are being told through this plan that everything is going to be all right if a major shortage occurs, as is highly likely in the next decade.

Furthermore, under the most optimistic projections, this plan is going to take 90 days to put into place, even with all the preplanning that DOE wants to do. I can tell you that last year, when we faced a 3 percent gasoline shortage in California, we had social disruption that was somewhat frightening. Facing a 20-percent shortage, one wonders how society is going to hold together for those 90 days while the gasoline rationing program is put into place.

There are also certain inequities in the proposed plan. We are very concerned about the fact that no base period is currently identified in this program. For a growth State like California, the base period is extremely important. We also think that operating the program on the basis of vehicle registration, for example, has a number of serious equity questions involved in it.

I would like to just spend a moment talking about what we have currently faced in the allocation system from the Federal Government, and how we feel that presents serious concerns when one looks at the gasoline rationing coupon program that has been proposed here, because it is, fundamentally, just a much larger allocation program.

The problems of the current Federal allocation system are just intolerable, and we think they will be unthinkable under rationing. California, in the last year, has processed 42,000 applications from its citizens for hardship and emergency gasoline and diesel fuel under the State set-aside program. We turn most of our set-aside back into the market, so we are really dealing with a very small amount of fuel at the moment, yet we are having a devil of a time trying to meet those needs.

The Department of Energy, I must say, has been inflexible and unresponsive. We have seen people who have serious, legitimate needs for gasoline and for reallocation wait 9 months to be told that their application is pending in Washington. We have a situation where an interstate highway was recently completed that now goes from the Mexican border to the Canadian border, with a 35 percent increase in traffic. In 6 months the Department of Energy has not understood that they need to reallocate fuel along that highway.

We have just had one problem after another with the Energy Department, and we think that operational experience, which we are now trying to document for the Congress, raises serious questions about coupon rationing. I must say that we agree with many of the conclusions in the GAO report in terms of the current gasoline allocation program. We think that the horror stories that have already occurred are just a prelude to what would happen under a coupon rationing program.

Now, California, in developing its own plan, is trying to look at alternatives. We understand that a standby coupon rationing program will probably go into effect. At the some time, we have been asking ourselves and people who have worked in the highest policy levels of the Government whether there isn't some better way, some more equitable and more efficient way to handle the probable shortages that are coming. The conclusion is that a number of ideas ought to be considered.

For example, many people have said that a system based on price, which would allow the free market to operate to reduce demand, and recapture the gains to distribute to the American people, would not only be much more rapid in its deployment, but also more fair, it would reach out to more people, and it would be more effective.

We think that system ought to be considered seriously by the Congress, and we would urge the Congress to ask the administration to have it as an option. There is no reason why we need to limit ourselves to one gasoline coupon rationing plan.

I would note for this committee that Senator Johnston has introduced a bill S. 2570 which we believe is a good starting point for considering a price rationing option. The bill does allow a market price-demand reduction system to operate with some form of rebate. So our conclusion is that while a standby coupon rationing system appears to be inevitable, it will be so complex and unwieldy that we have serious doubts about its ultimate success, and we would ask the Congress to help us develop other options.

I thank the committee for allowing us the opportunity to testify on this program.

[Testimony resumes on p. 135.]

[Mr. Richard's prepared statement follows:]

TESTIMONY

DANIEL D. RICHARD, Jr.

Adviser to the Chairman
California Energy Commission
Sacramento, California

on

THE PRESIDENT'S PROPOSED GASOLINE RATIONING PROGRAM

Before the

ENERGY AND POWER SUBCOMMITTEE
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
U.S. HOUSE OF REPRESENTATIVES

June 27, 1980

WASHINGTON, D.C.

I appreciate the opportunity to testify today on behalf of the California Energy Commission. We in California are concerned about the impact of the Administration's coupon rationing plan and how it would affect people in our state and across the nation.

The California Energy Commission is an independent regulatory authority with responsiblities in power plant siting, conservation and alternative energy development. We have a substantial analytical capability and find ourselves bringing more of our resources to bear on the problems of petroleum supply and motor fuels. At the present time, the Commission operates a state "set-aside" program for gasoline and distillate fuel, under Federal authority. We have also been delegated the task of preparing contingency plans for motor fuel shortages under the Emergency Energy Conservation Act (S.1030) passed by Congress last year. I would also point out that under parallel authority in state law, the Energy Commission must prepare emergency contingency plans for shortages of all forms of energy used in California.

As part of this emergency planning effort, we have had extensive discussions around the country with people in the oil industry, academic circles and those in high policy-making positions here in Washington. The clear consensus is that some form of serious supply disruption is very likely to occur in the next decade and that our nation is seriously unprepared to deal with it. There also seems to be agreement that the coupon rationing plan prepared by DOE will be cumbersome, expensive and difficult to administer.

As a state agency with extensive experience in the fuel distribution and allocation business, stemming from the retail gasoline disruptions in 1973

and 1979, we have serious reservations about DOE's coupon rationing scheme. In fact we believe the program may not work.

The coupon rationing approach raises many questions. First, it would involve what amounts to an entirely new currency system for the United States. The production, distribution and redemption of these coupons will be a major logistical challenge. Some studies have shown that up to 20 percent of the population may not be readily reached with ration checks.

Second, the system will require a sophisticated information system so that the nature and extent of gasoline shortages can be understood quickly and with precision. Our experience does not give us confidence that this can be done by DOE. As a result, the decision on how many coupons to produce for a given period may be based on incomplete and erroneous data. The coupons will be freely transferrable through a so-called "white market" under the DOE scheme. Our fear is that there may be difficulty in getting the gasoline quickly to the areas where the coupons are. California and the rest of Petroleum Allocation District V tend to be somewhat separated from the distribution system, consequently, shortages often appear first in our area. People are being led to believe that in a shortage situation there will be some ration of gasoline for everyone. This gives the public a false sense of confidence and if this confidence is shaken, because of an inflexible gasoline distribution system, the resulting social upheaval may be difficult to contain.

Third, the Energy Commission has opposed the use of vehicle registration as the basis for distribution of ration rights. While both a "per driver" and "per vehicle" approach have problems, a system based on vehicle registration will have a disproportionately greater impect on low income families. It would also promote continued use of older vehicles which may be obsolete and inefficient.

Finally, we are concerned that a critical item is not addressed in the current plan, that is, the base period upon which allocations will be determined. The base period is important to us for two reasons. First, it must take into account the fact that some states are growing and some are not. Use of an obsolete base period penalizes us for something over which we have no control, an influx of people into our state. Second, the base period must account for conservation efforts which have already occurred. In California, our drivers reduced consumption 7-10 percent in the last year. Areas where no conservation has occurred should not be rewarded with extra fuel based on historical usage.

To gain insights into the operational problems of coupon rationing, it is worth examining the present system of gasoline allocation in the United States. Currently fuel is distributed under Federal guidelines which result in maximum allocations to end users based on their use during particular periods. The rules also allow DOE to adjust these allocations to supply new businesses. Each state has the ability to set-aside up to five percent of the motor gasoline marketed in its boundaries for emergency and hardship needs, to adjust malfunctions in the allocation system.

Unfortunately, this approach and its inherent weaknesses are replicated on a grand scale in DOE's coupon rationing plan. Under the proposed plan each state is given a ration reserve to distribute to those consumers not adequately reached

with the coupons. This is most unfortunate because the existing fuel allocation system, operating on a limited scale and the moment without the stress of serious shortages in supply is in serious disarray. A recent GAO study soundly criticized DOE for the conduct of the fuel allocation program. If the problems we face today in dealing with the existing allocation system are intolerable, the problems of a coupon rationing system are simply unthinkable.

We have found in California that despite our best efforts, we are being overwhelmed by the allocation regulations. We processed more than 40,000 applications for set-aside gasoline and diesel fuel in the past year. In cases where allocation adjustments were obviously called for, DOE has taken up to nine months to respond. They have been unable to move gasoline to rural and agricultural areas which in our state and many others are growing faster than our urban centers. The result has been disruption, anger, and a threat to California's vast agriculture base--our largest industry and major food supplier for the rest of the nation. If the coupon rationing program magnified these effects the result would be devastating.

Coupon rationing is so cumbersome that under the best of circumstances the system would be implemented in three months. During the Spring of 1979 we saw tremendous social disruption resulting from a 3 to 5 percent shortage in gasoline supplies, lasting only a few weeks. One wonders how our society will be held together for three months in the face of a 20 percent shortage. The proposed plan will simply be too slow to meet the need.

Even if we get over the initial problems of putting rationing in place, the 10-20 percent of the people without coupons or those needing more fuel will come to the state ration reserves. We predict that the states will not be able to handle this burden. Nowhere in the rationing plan is there any mention of funding or other assistance for state governments to operate this program. In California, we have operated a set-aside program without a budget and with borrowed personnel for more than a year. Our requests for assistance from DOE have been unheeded and we had planned to discontinue the program until the California Legislature acted to support it. The burden under rationing would be enormously greater.

To summarize, our experience has been that the current Federal allocation system is causing more harm than good and that its problems would be enormously magnified under a coupon rationing system.

We understand the critical need to move forward with some plan to deal with supply disruptions, and we assume that a standby coupon rationing program will probably be approved.

At the same time we ask Congress to insist upon alternative plans to cope with shortages. The most obvious alternative, and one which has support from many quarters, is a system based on rationing by market price, with some provision to rebate funds to citizens. Under this approach, prices would be allowed to rise to market clearing levels, reducing lines and ending the shortage. Excess gains netted by suppliers would be recaptured and distributed back to the public. This option certainly seems easier to administer, quicker to implement and ultimately more effective than coupon rationing.

We note that Senator Johnson's bill S 2570 embodies just such an approach and urge Congress to look upon this measure as an excellent starting point to

consider price-based rationing. The California Energy Commission is willing to provide any assistance we can in exploring this and other approaches to prepare for fuel shortages.

If and when a shortage occurs we must be prepared with a fair and effective program to meet it so that our economy and our society can weather the crisis.

Thank you for the opportunity to testify.

Mr. **Shelby**. Mr. Richard, hailing from the most populous State in the Union, we all recall that you had serious gasoline shortages in 1979.

Mr. **Richard**. Yes, sir.

Mr. **Shelby**. I know you went through a great deal back then. What specific recommendations are you interested in implementing? In other words, the complete free market system, do you think that would work better than some type of allocation, or perhaps some type of rationing plan other than the one we have?

Mr. **Richard**. Mr. Chairman, at the risk of being glib, I would say that there are a number of New Deal-type Democrats in California now who are very interested in looking at price mechanisms, because we have had experience over the past year with an allocation system that even in a small scale just seems to be unworkable.

We have in California a situation that may be similar to your State, where our rural areas are growing faster than our cities. The allocation system has not been able to take that into account, so consequently our agricultural sector has been under a tremendous burden. We have tried, through our own State set-aside program to smooth out these inequities, and found that we are just putting a Band-Aid on a hemmorhage. So I think our conclusion is that we would be very happy to see the end of the Federal allocation system presently scheduled to coincide with oil decontrol in 1981. We hope that will occur.

Mr. **Shelby**. Is your State the largest as far as agriculture production in the United States?

Mr. **Richard**. I believe that is correct, Mr. Chairman. I know that we are the largest producers of many specialty crops. We have had a problem with trying to assure adequate diesel fuel on a national scale to move those crops to Eastern markets.

If I may, I would like to add one point that I skipped over in my statement.

Mr. **Shelby**. Go ahead.

Mr. **Richard**. I briefly reviewed the plan again this morning, and nowhere in there did I see any provision to help fund the States for the tremendous burden of the State rationing reserves. We have asked the Department of Energy many times to give us funding for the current State set-aside program that we have because its operated under the Federal allocation program. I must emphasize it is small in comparison to what we would face under the State ration reserve. California and many other States have never received any help from the Federal Government. We have processed these 42,000 applications, as I said, and we have had a tremendous burden; we had to hire people and go to our own State legislature for help. So, we would hope that the Congress would be sympathetic to the demands that would be placed on the States in having to operate these programs.

Mr. SHELBY. What would the vehicle registration part of this rationing plan do to a State like California? I assume you have more vehicles than any other State?

Mr. RICHARD. We have a large number. I believe we have something like 17 million vehicles in California. There is some debate on the vehicle registration program. Our analysts at the Energy Commission have concluded clearly that vehicle registration is the wrong way to go. I believe there are some other witnesses here today who are probably better able to testify on that, but the problem that we see is that it is inequitable. Low-income families tend to have one vehicle, if that, and yet many drivers, so we see this approach as having all kinds of secondary social effects. There could be a junk car market. People would tend to hold onto their older, less efficient, more polluting cars. It just looks like there are a lot of problems. We think that a licensed driver system is better.

Mr. SHELBY. There are a lot of junk cars in people's yards.

Mr. RICHARD. Yes, and the tags would come out, I think.

Mr. SHELBY. Mr. Richard, thank you for appearing before us.

Mr. RICHARD. Thank you, Mr. Chairman.

Mr. SHELBY. Is Mr. Welman here?

Excuse me, Mr. Richard, we have several questions here.

Go ahead.

Mr. BEINSTOCK. Thank you, Mr. Chairman.

I just want to thank Mr. Richard for his thoughtful testimony. Mr. Richard has been well known to me and I would like to commend him for his work.

Mr. RICHARD. Thank you very much.

Mr. BOLAND. I just have one question. The administration rationing plan uses 1969-70 data on personal travel. Do you in the California energy office have anything that is more recent for your State?

Mr. RICHARD. Yes, we do, and I would be very happy to provide that to this committee. Right now our California Department of Transportation is collecting monthly data on use of State highways and Federal highways in California. I am glad you raised that point for another reason. Personal vehicle mile travel in California is declining rapidly.

We are often viewed as a profligate consumer State, and we do use a lot of gasoline. But our people are also among the leaders in conserving fuel. So if the ration plan, which is based on historical usage, doesn't take into account the fact that some people were out there early trying to cut back on driving, then those who have done the most will be penalized the most under the rationing program. I think that is a good point to keep in mind.

Mr. BOLAND. Any data that you might have for this committee I am sure the committee would be happy to receive.

Mr. **Richard**. Our people have been collecting that data for about a year now, and I think you would find the trends very interesting.

Mr. **Boland**. Have you been requested by the DOE to submit that sort of data to them?

Mr. **Richard**. I don't know that we have. I must say most of our communications with DOE are one way. They tend to flow from west to east, so I don't think we have. I will check on it.

Mr. **Boland**. Thank you, Mr. Chairman.

Mr. **Shelby**. Is Mr. Welman here? Welcome to the committee. You may proceed when you are ready.

STATEMENT OF J. C. WELMAN, JR., CHAIRMAN, GAS RATIONING TASK FORCE, AMERICAN BANKERS ASSOCIATION

Mr. **Welman**. Mr. Chairman, members of the subcommittee, with your permission I will not read our lengthy statement [see p. 139]. I will just make a few comments.

I am J. C. Welman, Jr., executive vice president of the First National Bank of Minneapolis. Since 1973 I have served as the chairman of the American Bankers Association's Gasoline Rationing Task Force. I appreciate the opportunity to return to your committee once again to discuss gasoline rationing.

Since 1973, it has been our position that a workable standby rationing plan was essential to protect our country against the threat of a major shortfall in crude oil supplies.

We have supplied reams of paper and have had countless meetings with the DOE and its precedessors in order to work toward a reasonable plan. I have personally worked on every proposed plan which, to our knowledge, was ever developed since 1973.

From 1973 to 1979, each successive plan was better and more workable than the last, but in this last 7 months we have lost all we have gained in 6 years.

Mr. Chairman, I have no hesitation in stating that this is the worst plan ever formally proposed since the end of the embargo in 1974. It is substantially worse than the plan rejected by Congress last year. Some of the concepts were rejected over 5 years ago as being unworkable and unsound.

I am disappointed and shocked that the previously discarded concepts were placed in the current plan without anyone in DOE ever asking our industry if we had the capability to perform the broad spectrum of duties assigned to us under this plan.

In the past, Mr. Chairman, we have suggested to you and to DOE that certain plans could be made to work. The proposed plan is not worthy of such a compliment. I hope, Mr. Chairman, that neither you nor the American public will be misled by a false sense of security that the plan offers any protection against a major oil shortfall. It does not.

Mr. Chairman, we have never in any formal statement asked DOE or the Congress to reject any rationing plan and have always worked towards getting a plan and improving it despite the burdens on our industry.

If I were capable of persuading the Congress to reject this plan, I would gladly do it, but apparently the plan will become an approved regulation.

Unless your committee strongly urges DOE to review and substantially revise the operating procedures suggested in their plan, I believe the plan will be a disaster. This is a poor substitute for a thorough and careful analysis of the plan by the Congress prior to the plan being approved. But apparently it is the only alternative.

Our statement includes the details of the specific operating problems of this plan.

Thank you for the opportunity to present our views. I will be happy to answer any questions which you or the other members may have.

[Testimony resumes on p. 151.]

[Mr. Welman's prepared statement follows:]

STATEMENT OF THE
AMERICAN BANKERS ASSOCIATION
BEFORE THE SUBCOMMITTEE ON
ENERGY AND POWER OF THE
COMMITTEE ON INTERSTATE AND
FOREIGN COMMERCE
ON THE
STANDBY GASOLINE RATIONING PLAN

JUNE 27, 1980

Mr. Chairman, and members of the Subcommittee, I am J.C Welman, Jr., Executive Vice President of the First National Bank of Minneapolis and Chairman of the American Bankers Association's Gas Rationing Task Force. I have been directly involved with the subject of gas rationing for approximately seven years and, together with some of my associates at First National Bank of Minneapolis, served as a consultant to the Federal Energy Administration in developing specifications and requirements for the role of regional processing centers under a possible gas rationing plan.

I am appearing today on behalf of the American Bankers Association, whose membership of over 13,100 full service banks constitutes over 90% of the nation's banking community.

Our testimony today will focus on the potential involvement of the banking industry in administering gas rationing. We will also discuss briefly a possible alternative to rationing which we believe would fulfill the goals of the rationing program without many of the drawbacks inherent in the plan under consideration.

At the outset, however, our Association must call to this Committee's attention the fact that, from a purely operational point of view, the present rationing plan is one of the worst yet developed by the Energy Department. Unlike any other than the original plan first developed in 1973, this plan comes close to being impossible to implement. Unless the major operational deficiencies stated or implied in the present plan are remedied by the Department of Energy during the preimplementation period, we feel certain that few banks will be willing to participate in the implementation of gas rationing. And even if every bank were to participate, we are not at all certain that the full implementation of the present plan in a time of severe supply shortages would provide any less economic disruption, social chaos, and personal dislocation for the motoring public than no plan at all.

This situation is most troubling because our Association, over the years, has supplied reams of information to the Department of Energy on the capability of the banking industry to operate various parts of the gas rationing plan and has offered what we believe to be more workable, less disruptive alternatives to the operational scenario called for in the present plan. We would note that the very vagueness of the present plan on many operational points--a vagueness which has been justly criticized in the past-- provides one more opportunity for the Department of Energy to remedy these deficiencies during the preimplementation period. We urge this subcommittee to express, in the strongest terms, its concern with the potential unworkability of the gas rationing plan, and to urge the Department of Energy to work closely with all the parties who will ultimately assist in rationing implementation to produce a workable, cost-efficient rationing plan.

The standby gasoline rationing plan here being considered would involve the banking community intimately in its operation in at least four respects: first, the plan provides that commercial banks will be authorized to act as coupon issuance points for the exchange of ration checks for ration coupons; second, the plan calls for commercial banks to maintain ration rights (checking) accounts into which "any individual or firm" can deposit ration coupons or ration checks and on which an accountholder could draw a "check" denominated in gallons of gasoline; third, commercial banks, under the plan, would offer redemption accounts into which gasoline retailers would deposit redeemed ration coupons, and on which they would draw "checks" denominated in gallons of gasoline to reimburse their wholesalers for further gasoline supplies; and fourth, commercial banks would be included among those eligible to operate the Transfer, Verification, and Destruction Centers which would count, determine the legitimacy of, account for, and ultimately, destroy used ration coupons. We will address these functions in order.

COUPON ISSUANCE POINTS

The maximization of the number, and smooth functioning of, the coupon issuance points is the single most important prerequisite for a workable gas rationing plan. In this regard, the plan is woefully inadequate in details, and actually worse than the plan rejected by Congress last year in outline.

Our areas of concern relate specifically to the necessity of providing the largest number of convenient locations at which the motoring public can receive coupons, and a sufficient period of time in which they can convert their ration checks into coupons before they must use them at the pumps. This necessity has not yet been met.

If we experience the chaotic conditions described by the Department as a prelude to gas rationing, the key will be to move to rationing in a way which will not increase the consumer's inconvenience and may even reduce it. This requires coupon issuance points conveniently located along the consumers' normal routes of travel.

Having the largest number of convenient locations can be assured by encouraging many types of businesses and offices, not just banks, to redeem ration checks for coupons. Other institutions such as thrift associations, major employers, government offices and retailers should serve as coupon issuance points. To limit coupon issuing points to banks or even all financial institutions so greatly restricts the number of participants that we will merely add lines at the banks on top of lines at the gas stations. To encourage the widest participation, the Department should specify minimum identification and validation standards which, if followed, would relieve coupon issuers of liability. The Department should also provide a reasonable level of compensation to coupon issuers.

The present plan is actually a step back, in regard to the number of coupon issuance points, from the last plan. Whereas last year, the Department stated its intention of including a variety of financial institutions, large employers, retailers, and government offices as coupon issuance points, the present plan calls only for exploring the feasibility of expanding the number of coupon issuance points to include financial institutions and others. Moreover, the Department of Energy has stated that they anticipate that rationing would begin with approximately 60,000 coupon issuance points--a number, we would note, that happens to correspond with the number of commercial banking offices in this country. Our studies appear to show that at least 150,000 coupon issuance points would be necessary to provide efficient coupon distribution with lines of consumers of reasonable length at most points.

Even if adequate locations are provided to reduce consumer inconvenience, 160 million vehicle owners cannot be expected to line up at these locations in just a few days. We urge the Department to agree that the delivery of the checks during each cycle will be spread over at least a 21-day period and that the public will receive their ration checks at least 14 days before the time when the authorized coupons are to become valid.

I would like to illustrate how the amount of public inconvenience is directly related to the number of points at which coupons are available for issuance to the public, the length of time it takes to complete an individual transaction, and the number of days the public has available to exchange their ration checks for coupons prior to using them at the pumps. For example, if we were given a week to issue the coupons and it took only two minutes per transaction, we would need 152,380 people full-time each banking day, even if the public agreed to evenly space their appearance at the window throughout the day to insure 100% utilization of the tellers. This would result in an increase of approximately 50% in the total number of tellers we have today. The mere addition by the regulatory agency of one more step in the issuance procedures could easily add one minute to the transaction time. This one minute would add 76,191 full time employees. Examples of such things which may increase the time could be requiring two pieces of identification instead of one, recording a lengthy number from one or more documents such as a drivers license, or requiring the teller to count coupons rather than having them prepackaged.

If the number of days available for issuing coupons is expanded, the additional tellers required can also be reduced. The greatest possible number of coupon issuance points is necessary because the lobbies of commercial banks cannot physically accommodate the number of additional employees or the massive customer lines. Expanding coupon issuance points far beyond the number of financial institutions could provide adequate space for the employees and customers and permit using some existing employees on an overtime basis. So Mr. Chairman, the reason we are stressing the need to standardize and minimize coupon issuance requirements, to have the greatest number of issuance points, and have an adequate period of time for coupon issuance is that the public inconvenience is directly related to these procedures.

RATION RIGHTS CHECKING ACCOUNTS

This provision of the plan is nothing less than absurd. To permit every individual and firm in the country to establish a ration rights account could potentially result in 160 million new checking accounts. There are approximately 100 million checking accounts today in existence at commercial banks. Even if only 10% of the eligible population attempted to open ration rights accounts during the 90-day period preceding the implementation of gas rationing, the resulting drain on personnel and additional paperwork and data processing costs would overwhelm the nation's commercial banking system. Assuming all banks in the country participated in the ration rights program, that average time for opening such accounts was no more than 30 minutes, that all necessary supplies and equipment for opening and handling the accounts was available at the beginning of the 90-day period, and that potential accountholders spaced their applications for accounts evenly over an 8-hour working day--all rather unlikely assumptionss--each bank in the country would need to hire 10 additional new account officers to handle the volume of eligible participants in the ration rights checking program.

And, of course, a commercial banking system which has taken over 200 years to develop the capacity to process the checks drawn on the existing 100 million checking accounts simply cannot afford the capital investment necessary to handle 160 million new accounts for a limited program outside the normal range of banking operations. Earlier drafts of the gas rationing plan would have limited the availability of ration rights accounts to no more than 400,000 bulk users of gasoline and rationing coupons. Our Association believes that commercial banks can handle this increase in checking accounts without significant disruptions.

Nevertheless, we are not at all convinced of the need or desirability for this new form of "negotiable" instrument which has no precedent in State or Federal law. The use of ration rights checking accounts would increase the potential for fraud and misallocation of gasoline supplies, while exacerbating identification and legal problems already inherent in the use of government-issued ration rights checks to provide consumers with their gasoline coupons. The multiplication of new forms of payment instruments without a substantial advance period for education will present service station operators with a confusing amalgam of potential entitlement documents (including government-issued ration rights checks, ration coupons, individually issued ration rights checks) which may significantly slow each individual gasoline sale, thus adding to gasoline lines the plan is designed to limit. Our Association, therefore, opposes the use of ration rights checking accounts.

REDEMPTION ACCOUNTS

These accounts would be available only to gasoline retailers, and would provide the primary method of balancing gasoline sales against supplies. Our Association has carefully studied the best methods for handling the problem of accounting for used gas ration coupons, and has concluded that, while the redemption accounts as proposed would be workable, a nationwide system of perhaps 12 regional processing centers could far more efficiently provide this service. Under a regional processing center system, gasoline retailers would deposit sealed packages of redeemed gas ration coupons at their local bank (or other redemption point). The bank would forward the package, still sealed, to a regional processing center which would maintain redemption accounts for all retailers in its region. The regional processing center would unseal the package, count the coupons, and credit the retailer's account. The retailer could then draw a check on its redemption account for additional gasoline supplies exactly as proposed in the Department's plan.

The regional processing center system, by providing the volume necessary to justify the purchase and use of high-speed paper-handling and data processing equipment would be far more efficient than the use of many, decentralized redemption account processors. It would also give the Department of Energy far greater ability to audit both gasoline flows in different regions of the country and total gasoline supply figures. We would note that the regional processing center concept closely approximates the present system for processing credit card billing and payments, other automated billing systems, and certain features of the correspondent banking system's procedures for check processing. We believe that the Department of Energy should carefully consider the use of the regional processing center concept rather than providing redemption accounts at every participating bank.

Finally, as part of our testimony on coupon issuance, ration rights accounts, and redemption accounts, we wish to point out that the plan invites legal chaos in its failure to address the total absence of a body of law, similar to the Uniform Commercial Code, which would deal with the rights, responsibilities and liabilities of individuals and firms who are participants in transactions involving negotiable and bearer "gallons" instruments of undetermined value which are not covered or contemplated by existing statutes. Such an obstacle is almost certain to impede the efficient functioning of the plan by discouraging participation and "good faith" actions by the business community.

The plan contains references to "Government Ration Check," "Ration Check" and "Redemption Check"--all of which indicate the development of a negotiable instrument which entitles the holder to some units of a commodity, namely gasoline. Unofrtunately, these documents cannot legally be considered checks.

Under Article 3 of the Uniform Commercial Code (UCC) --the law applicable in all fifty states--a check must, among other things, contain an unconditional promise or order to pay a sum certain in money and no other promise, order, obligation or power. The UCC defines money as "a medium of exchange authorized or adopted by a domestic or foreign government as a part of its currency." The Official Comments note that the definition of money does not include "any medium or exchange current and accepted in a particular community, whether it be gold dust, beaver pelts or cigarettes in occupied Germany." The so-called ration "checks" intended to be issued by the Government, therefore, clearly cannot meet one of the principal requisites of checks as they are known in the law.

Moreover, checks must also be drawn on a bank and the proposed ration "checks" do not appear to be drawn in the legal sense on anyone. They might more accurately be designated redemption documents, or commodity exchange paper, or something of the sort, but not checks.

Not only will the government be issuing these documents, but the plan contemplates that individuals will be issuing them. There is nothing in the statutes governing checks that would permit or accommodate this particular proposal. What it assumes is the creation and use of negotiable instruments. But negotiable instruments all must contain unconditional promises or orders to pay a sum certain in money. No money is involved here.

The plan is particularly troublesome in that it states that "it is intended that normal commercial practices would govern in determining which party bears the burden of loss with respect to overdrawn ration checks." Here again, the drafters are assuming the existence of some normal commercial practices. It is entirely possible that if these documents are accurately characterized (as something other than checks), there may be some normal commercial practices to judge who bears the loss in the event such documents are misused. For example, the Energy Department may be able to devise appropriate negotiable documents which might then be governed by Article 7 of the UCC. But the attempt is to characterize these documents as regular commercial bank checks and to apply the normal commercial practices which govern such negotiable instruments. Who bears the loss with respect to overdrafts is a question which can only be correctly asked in connection with certain specialized negotiable instruments drawn for the payment of money. It cannot be correctly asked in connection with the trading of gold dust, beaver pelts, cigarettes or "ration checks."

Our last concern with these instruments called "checks" is the failure of the Department of Energy to distinguish between "government ration checks" issued by the Federal government and "ration rights" or "redemption checks" written by private individuals. Under present law, Treasury checks issued by the Federal government to, for example, social security recipients are governed by something called the Federal common law of Treasury checks--an amorphous, ill-defined area of law concerning which no more than a handful of attorneys can speak with any precision. All checks issued by individuals in the United States are, of couse, subject to the Uniform Commercial Code--a complex, precise body of law which had its origins in the medieval Law Merchant. The Department of Energy is faced with the dilemma of trying to superimpose a new "negotiable" instrument denominated in gallons of gasoline on both of these systems without, apparantly, even recognizing their existence. We believe that the Department must try to clarify these legal issues during the preimplementation period, and, perhaps through additional legislation, identify with precision the rights and responsibilities, as well as the potential liablilities, of all parties to these "checks."

TRANSFER, VERIFICATION, AND DESTRUCTION CENTERS

An additional concern throughout our involvement with Energy officials during the plan development process relates to the transfer, verification, and destruction centers (TVDs). We have consistently cautioned the Department that the equipment and expertise of our members did not make banks logical candidates to serve as TVDs. We have, however, indicated a willingness by banks to serve as Regional Processing Centers. We hope to work with the Department during the preimplementation period to clarify the functioning of both RPCs and TVDs.

Our comments on the plan to this point have been limited to the role of banks in the proposal. Of equal concern to the effective functioning of the plan are the questions of whether gas rationing coupons should be recycled or cancelled at the point of their original use; whether the coupons should be limited to a single denomination (such as 5 gallons a piece); and what quality coupons need be printed. We have offered the services of the American Bankers Association to the Department of Energy to work on the preimplementation of gas rationing. It has long been our belief that the nation must have some standby plan to deal with a severe supply interruption and, under present law, this gasoline rationing plan is the only available option. We hope this Subcommittee will urge the Department of Energy to work with those who will assist in implementing gas rationing during the preimplementation period to correct some of the deficiencies we have identified.

In addition, we strongly urge the Subcommittee to develop legislation to provide an alternative to gas rationing to ameriorate a supply interruption. On June 2, I testified before the Senate Energy Regulation Subcommittee on a bill, S. 2750, to provide a tax-rebate alternative to rationing. Although the tax-rebate method of bringing supply and demand into balance has several drawbacks, it appears far easier to implement, and more flexible to operate than gas rationing. Our Association would commend such a plan to the Subcommittee's attention.

In summary, Mr. Chairman, if the supply of gasoline decreases to the point that the chaotic conditions necessary to trigger gasoline rationing actually occur, America's bankers will respond as they have in the past to do their part to see that the public's needs are met. To relieve the chaos and prevent substantial adverse public reaction to rationing, the process by which motorists obtain coupons must be as efficient as possible. This requires a number of issuance points far greater than the number of banking offices in this country. If appropriate rules were adopted, many types of businesses could issue coupons, just as they cash checks today. Even this expansion will not be effective unless it is joined with systematic incremental mailing of checks to motorists, which will serve to spread their presentation of these items to coupon issuance points over a reasonable period of time.

Thank you for this opportunity to present our views. I will be happy to answer any questions which you or the other members might have.

Mr. SHELBY. Thank you for appearing before the committee. Do you have any suggestions that we might consider, other than study the plan?

Mr. WELMAN. Mr. Chairman, the Department of Energy in its files has substantial flow documents which indicate appropriate ways to handle gasoline rationing. It is not up to me to debate the political part of who gets gasoline and things like that, but they were very close a year ago to understanding how the system would work.

The aberrations in the present plan come from a source unknown to me, but it would be reasonably simple to go back to a concept developed by the Department of Energy and the FEA called the regional processing center, which has been tested and is sound, and a concept referred to as a transfer verification and destruction center, which is sound and utilizes high-speed equipment for handling coupons.

But somehow or another the Department of Energy has reverted back to placing the burden on 14,000 banks, a burden of 14,000 different accounting systems, and a control mechanism beyond the capability of the DOE.

Mr. SHELBY. Staff has some questions.

Mr. SCHOOLER. Mr. Welman, you have raised the troublesome area of ration checking accounts and the problems associated with such a system. We are also interested in that issue.

Let us assume for example, that company X chooses to write a ration check for some amount of coupons which it doesn't possess. In your best judgement, What would be the legal consequences of that action?

Mr. WELMAN. Mr. Schooler, I don't have the slightest idea. I would suggest that I don't believe anybody in the United States has the slightest idea. There is no body of law which would be applicable to our knowledge.

Our concern in the ration checks which has changed radically from the plan that I discussed with this committee about a year ago is that the Department of Energy has added a concept called ration rights accounts, which go to any individual in the United States who chooses to open one.

When I was here previously, we were discussing a series of redemption accounts and ration accounts to bulk users, with an estimated magnitude of approximately 400,000 accounts. I assured this committee that the RPC—regional processing center—concept was capable of handling this.

We now have a situation that the DOE proposes a system of potentially up to 160 million accounts, when the entire banking industry only handles 100 million.

Their estimate is that certainly there would be around 6 to 7 million accounts, which is a substantial increase over the 400,000 we have previously been dealing with.

Mr. Schooler. Do you feel one could maintain some concept of allowing bulk users not to carry around a bag full of coupons, while developing an approach that falls somewhere in between that and what we have in the present plan?

Mr. Welman. The estimated number of bulk users during the development of the 1975 plan was a combination of 200,000 service stations and 200,000 bulk users, which is the 400,000 figure I previously referred to.

There is no question that it is most efficient for a bulk user to utilize such an account. The DOE, for some unexplained reason, has chosen to expand the availability of ration right accounts to every person who owns an automobile. That is an expansion which I think is unjustified.

Mr. Schooler. We would appreciate any more detailed comments on the issue of ration checking accounts. Also, much of your testimony discusses the role of the banks and their ability to handle this.

Do you think that this could be handled to some degree by making certain of these provisions, more discretionary for the banks, if they choose to offer the service, and can make arrangements with, say, their large customers to do so?

Mr. Welman. No, I don't, Mr. Schooler. I previously guess I have been somewhat naive and have assumed that as we have worked along the plan, we would work toward a better plan, and develop and work out some of these difficulties.

The deterioration in this plan versus a plan presented to Congress in 1979 is so bad that I am not certain that I feel comfortable in leaving to the Department of Energy or to anyone else the working out of details. I think perhaps the appropriate place to debate them is before the Congress of the United States.

Mr. Schooler. The committee would appreciate if you could provide for our record in a summary fashion the differences between this plan and the previous plan and the problems that those differences have created from your perspective, so that we can see clearly what those differences are.

Mr. Welman. We will be happy to do that, Mr. Schooler.

The Department of Energy has prepared a comparison between the December 1979 Federal Register plan and the current plan. The December 1979 Federal plan was so vague it was incomprehensible to us. I assume the suggestion is to go back to the plan presented to Congress in early 1979, later rejected by Congress. Is that the request?

Mr. Schooler. Yes, sir.

Mr. **Welman**. All right.

[The information was not available to the subcommittee at the time of printing.]

Mr. **Schooler**. Thank you very much.

Mr. **Swift** [presiding]. The chair recognizes minority counsel.

Mr. **Boland**. Mr. Welman, you suggested that the Department of Energy has in its files other plans, other types of issuing coupons, other types of providing rationing. Can you describe some of those for us?

Mr. **Welman**. Certainly I would be very happy to, Mr. Boland. Perhaps the more appropriate person would be someone from the DOE.

But to my knowledge in the DOE files, to the extent they have been made public to me, there is a 1973 plan which was rejected in a matter of hours because it was substantially very unsound. That plan is very similar to the one today. I think we could have some debates as to which is the most unsound.

In 1975 there was a plan which was in essence put into effect by Secretary Simon. Secretary Simon utilized that plan in a message to OPEC saying that we do have a gasoline rationing plan. It was not one which was approved by Congress. According to my memory, I don't believe it ever went before the Congress.

Then there was a period between 1975 and 1978 in which the DOE explored a series of alternatives, part of them at the request of Secretary Schlesinger. One of them was a charge-card approach.

I never got an opportunity to review that plan, but I assume there was some report written. There was a brief look at a so-called online terminal-oriented system, which was rejected immediately because of cost.

The 1978 plan presented in the Federal Register by the DOE—hearings were held on that—was somewhat different from the 1979 plan presented to Congress in, I believe, January or February of 1979.

All of those plans were quite specific. The present plan is perhaps more dangerous because it is vague, but also in the places in which it is not vague, I am in total disagreement with it.

Mr. **Boland**. If we had to institute rationing tomorrow morning, how long do you think it would be before our coupons would start going out and the plan would begin to operate as smoothly as it is capable of operating?

Mr. **Welman**. Long after the problem was gone, but I do not have access to all of the figures in the Department of Energy. But if the plan which we have here today were attempted to be implemented, if it were done within 2 years, I would be shocked and I think DOE ought to earn a medal or something.

Mr. **Boland**. Thank you, Mr. Chairman.

Mr. **Swift**. Thank you, Mr. Welman. We appreciate your providing the committee with your views.

The next witnesses will be on a panel. Ms. April Moore, National Consumers League; Mr. Harvey Rosenfield, of Congress Watch. If you would like to introduce yourselves for the record, and any associates you may bring with you to the table.

STATEMENTS OF APRIL MOORE, NATIONAL CONSUMERS LEAGUE; HARVEY J. ROSENFIELD, STAFF ATTORNEY, CONGRESS WATCH; AND GIL THOMPSON, URBAN ENVIRONMENT CONFERENCE,

Ms. MOORE. Thank you.

I am April Moore from the National Consumers League. With me today are Harvey Rosenfield from Congress Watch, and Gil Thompson from the Urban Environment Conference.

On behalf of the National Consumers League, I appreciate the opportunity to speak to you this morning.

Consumers across the country are outraged at the Department of Energy's gas rationing proposal recently submitted to Congress. Nowhere in the plan is there a sign that DOE considered any of the views expressed by the more than 40 citizen groups who testified at DOE-sponsored hearings in four cities January 3-4.

The consumers who testified overwhelmingly denounced the vehicle-based plan as grossly unfair to the vast majority of Americans. The car ownership-based plan, consumers told DOE officials, would reward those wealthy enough to own several cars and penalize those too poor or too conscientious to own more than a single car. With such widespread opposition to the very core of DOE's plan, the National Consumers League is shocked that DOE completely ignored the public cry for an equitable plan.

Through a contract with the Department of Energy's Office of Consumer Affairs, NCL coordinated citizen participation at the Boston, Chicago, New Orleans, and San Francisco hearings. Despite inadequate notice by DOE and a hearing schedule that forced participants to sandwich their holiday celebrations between preparing for and participating in the hearings, NCL found enormous interest among citizen groups. Of the 60-odd organizations NCL contacted, more than 40 senior citizen, neighborhood, low-income, minority, and bicyclists' organizations participated in the hearings.

While the speakers represented a wide range of interests, they overwhelmingly agreed that a rationing plan based on vehicle registration is inequitable for the following reasons:

A vehicle-based plan does little to stimulate conservation. In fact, it encourages ownership of more cars.

The plan means greater hardship for the elderly, the poor and others who own only one car or none at all.

While DOE officials insisted the plan is only an allocation tool and not a social welfare or conservation program, the consumers had other imaginative ideas for the plan. Some suggested it could be used to help the Nation plan now for the gasoline shortages that are sure to occur; stimulate use of public transportation; and reward those who reduce their car use.

Some consumers suggested alternatives on which to distribute gasoline coupons, including drivers licenses; and distribution of coupons to all interested adults through voter registration, social security, or a new system similar to selective service.

At all four hearings DOE officials were much more interested in hearing comments on technical points than they were in listening to people's concerns about how the plan would affect the public. DOE officials repeatedly told consumers that there was no time to make substantive changes in the plan, that only minor changes would be considered.

While the consumer participants were primarily concerned with insuring fairness, many were also concerned that the plan does not provide for ongoing consumer participation in implementing and monitoring the plan. A nationwide program to ration gasoline would be so immense and so dependent on public cooperation that ongoing consumer involvement is a must, many said.

Based on the vigorous objections of citizens all over the country to DOE's vehicle-based plan, the National Consumers League urges Congress to vote down this antipeople, anticonservation plan. The Department of Energy has had chance after chance to develop an equitable plan, and it has failed to do so. It is time for Congress to develop a workable plan that will conserve gasoline in a way that is fair to all.

More specifics on the consumer response to DOE's vehicle-based rationing plan are included in the attached report which NCL submitted to DOE 5 months ago. We hope you will read the report and join us in supporting a just rationing plan.

Thank you.

[Testimony resumes on p. 166.]

[The report follows:]

NCL
National
Consumers
League
Founded 1899

1522 K Street NW • Suite 406 • Washington, DC 20005 • (202) 797-7600
Sandra L. Willett, Executive Vice-President

FAIR-SHARE RATIONING:

THE CITIZEN RESPONSE TO THE DEPARTMENT OF ENERGY'S PROPOSED STANDBY PLAN

prepared by

April Moore and Peter Harnik

through a contract to the
National Consumers League
from the Department of Energy's
Office of Consumer Affairs

January 17, 1980

DE-AP01-80IR10882.000

Officers: Erma Angevine, President • David H. Scull, Treasurer • Virginia T. Kutts, Recording Secretary • Robert R. Nathan, Honorary Chairman • Sarah H. Newman, Vice-President • Bert Seidman, Vice-President

EXECUTIVE SUMMARY

More than 40 consumers testified at the Department of Energy's gasoline rationing hearings in Boston, Chicago, New Orleans and San Francisco on January 3 and 4, 1980.* The participants represented constituencies as diverse as senior citizens, the handicapped, poor people and minorities, bicycle riders, farmworkers, public transportation advocates, and more. Some were not affiliated with particular organizations but spoke as interested individuals.

While the speakers represented a wide range of interests, they overwhelmingly agreed that a rationing plan based on vehicle registration is inequitable. Some of the reasons cited:

- A vehicle-based plan does little to stimulate conservation. In fact, it encourages ownership of more cars.

- It means greater hardship for the elderly, the poor, bicycle riders, and others who own only one car or none at all.

While DOE officials insisted the plan is only an allocation tool and not a social welfare or conservation program, the consumers testifying suggested other creative uses. The plan could be used to:

--stimulate use of public transportation;
--give the poor a welcome financial break; and
--help the nation plan now for continuing short supplies of gasoline.

Suggested alternatives on which to base gasoline rations included:

- drivers licenses; and

- distribution of coupons to all interested adults through more widely available mechanisms, such as--
    - voter registration
    - Social Security registration
    - a new registration system, similar to Selective Service

The consumer participants were primarily concerned with ensuring fairness. At all four hearings, however, DOE officials appeared to be more interested in hearing comments on technical points than they were in listening to people's concerns about how the plan would affect the public. DOE officials repeatedly told consumers there was no time to make substantive changes in the plan, that only minor changes would be considered.

---

*Because of time and funding constraints, the hearings in Seattle (on Jan. 3-4) and Washington, D.C. (on Jan. 7-9) were covered by DOE staff. The citizens groups who made presentations at those hearings reiterated the positions outlined in this report.

Moreover, DOE personnel periodically pointed out to consumers that testimony had previously been presented on a similar plan before the old Federal Energy Administration on June 21, 22 and 24, 1976. However, it should be noted that of 107 witnesses at that set of hearings, not a single one represented any consumer, citizen, senior, handicapped or environmental organization. These 1980 hearings marked the first time the government ever heard citizen reaction to gasoline rationing plans.

Other concerns the consumers raised included:

- the absence of language in the plan calling for ongoing consumer participation in implementing and monitoring the plan.

- the 5 percent state ration reserves which many described as inadequate to meet the needs of the handicapped as well as other individuals with hardships.

- the definition of "priority classes," which consumers said should include meals-on-wheels and other social services, farmworkers, and those producing energy through such conservation activities as weatherization.

Many expressed the belief that gasoline rationing should be imposed now so that we may deal with coming shortages in the least disruptive way possible.

Finally, citizens were angry that so little notice had been given of the hearings. Many knew others who would have wanted to participate but were unable to because of time constraints. Not only was there insufficient time, consumers said, but the information regarding the hearings did not reach out far enough into neighborhoods and communities. A plan with the potential impact of gasoline rationing should be developed only with extensive public participation, consumers said.

FAIR-SHARE RATIONING:

THE CITIZEN RESPONSE TO THE DEPARTMENT OF ENERGY'S

PROPOSED STANDBY PLAN

prepared by

April Moore and Peter Harnik

Gasoline rationing is of vital concern to consumers, as demonstrated by the recent series of public hearings on the Department of Energy's proposed standby gasoline rationing plan. Despite inadequate notice by DOE and a hearing schedule that forced consumers to sandwich their holiday celebrations between preparing and participating in the hearings, the National Consumers League found enormous interest among citizens groups. These groups expressed to NCL their belief that the increasing likelihood of rationing in the United States demands extensive consumer involvement to ensure that the plan being developed is both equitable and effective. Of the sixty-odd organizations NCL contacted through a contract from DOE's Office of Consumer Affairs, more than 40 sent representatives to one of the DOE hearings, held in Boston, Chicago, New Orleans, and San Francisco. Several other individual consumers and groups submitted written comments to DOE.

At the hearings, citizen participants discussed ways in which the plan, if implemented, would affect the public. While a number of concerns were aired, one overriding objection dominated the consumers' testimony at all four hearings. The overwhelming majority of those commenting opposed the use of vehicle registration as the basis on which to allocate gasoline, saying that such a plan would be fundamentally unfair.

It became clear to NCL observers at the hearings and to consumer participants as well that the DOE panelists were not interested in the broad question of the plan's fairness to the public. They appeared much more concerned about hearing suggestions regarding minor technical points. In fact, Ben Massell, Director of the ERA Emergency Planning Division, said at the Boston hearing, "Anything as extensive as changing the distribution formula would probably take a couple of months--which we simply don't have." Despite consumers' creative suggestions of ways to make the plan more equitable and more conservation-oriented, DOE officials repeatedly told participants that the plan is not a social welfare or conservation program, but merely an allocation plan.

Rationing based on vehicle registration deemed unfair

"A vehicle-based system would encourage people to buy more cars and would take away all incentive to own fewer or no cars," stated Larry

Samuel of the Louisiana Consumers League. The rising value of cars would put participation in the rationing plan further out of reach of many poor people, other witnesses said.

"Fuel allocation by automobile is simply not fair," charged Father Robert McEwen of the Association of Massachusetts Consumers. "The worst thing the government can do," he said, "is to tell consumers to reduce their driving and conserve fuel, and to then turn around and penalize them for doing exactly that."

Felix Gaudin, a resident of New Orleans, told the DOE panel there that the five licensed drivers in his family share a single automobile because they are trying to do their part to conserve gasoline. "Now I am told that our temperance will be rewarded by a rationing plan which will give us the smallest possible allotment. Those of us who have already shown a willingness to conserve gasoline," Gaudin said, "should not have our efforts recognized by relegation to the last seat on the bus."

Those representing the poor and minorities, the elderly, bicycle riders, and others who do not own cars also objected to a vehicle-based plan. "A plan based on car ownership would exclude 40% of Hartford's residents," said Rev. Peter Rosazza, a bishop in Hartford, Connecticut. Almost half the city's population are not car owners. Yet many of them must travel long distances to unskilled jobs in suburban restaurants and stores, he explained.

"DOE must stand for Dump on the Elderly," said Sidney DeKoven of Chicago's Metro Area Seniors in Action. "Many seniors rely on friends or relatives to drive them to the store or doctor," he pointed out. "In the event of gas rationing, do you think people will be as willing to help us out? Of course not. If we could offer a coupon or two in exchange for the ride, we could get the assistance we need."

The "Carter Used Car Buying Plan" would better describe what Sid Wolinsky of Public Advocates, Inc., a San Francisco based public interest law firm, characterized as "a giveaway of staggering proportions." The government is making the rich an offer they can't refuse," Wolinsky said, "with this gasoline rationing plan that could subsidize a three-car family as much as $2,250 per year."

Low income families, according to New Orleans resident Nell Weekly, will be among the hardest hit. "They will suffer all the disadvantages of this gas rationing plan but will derive none of its benefits." She pointed out that those who are too poor to own an automobile will get no coupons, despite the increasing fares they must pay for public transportation. "Low-income families already pay disproportionately more for food and other consumer goods," said Weekly, and the poor will be hurt even more as increased transportation costs are reflected in the prices of all consumer products. Those low-income families who do own cars, according to Weekly, are likely to drive old gas guzzlers because they cannot afford the newer, more fuel-efficient models." Weekly called for a rationing plan which would minimize the impact on the poor of scarce gasoline supplies and inflation. "A plan based on the ownership of automobiles does not do this," she said.

Bicycle riders would also be penalized by a vehicle-based rationing plan, claimed San Francisco Bicycle Coalition member Darryl Skrebak. Those who own a bicycle rather than a car are already conserving gasoline, yet they would be dealt out of the government's plan, he said. "In a society as auto-oriented as ours is, people without cars must at least occasionally and often regularly depend on others with cars for transportation," Skrebak said. By excluding a significant segment of the population from participating in the plan, DOE fails to recognize that at times use of a car is a must for virtually everyone.

There were other consumer criticisms of allocation based on vehicle registration. "And what about mopeds?" asked Steve Irving of the Public Law Utilities Group, Inc. (PLUG), a Louisiana citizens group. He pointed out that in many states mopeds are not subject to vehicle title laws and would therefore be ineligible for gasoline allotments under a vehicle-based plan. Users of the most efficient of all gasoline-consuming vehicles would be penalized," he said. Yet, "owners of recreational vehicles, and even four-ton motor homes equipped with air conditioning, ice makers, trash compactors, and color TV are entitled to receive ration rights," said Carter Henderson of Gainesville, Florida, in written testimony.

Lawrence Mayberry of the Citizens Action Coalition of Indiana, pointed out that corporations with huge fleets of automobiles have the greatest potential to conserve, although a vehicle-based plan would reward them with more gasoline coupons.

Alternatives to vehicle registration

While all the consumers who addressed the question of distribution opposed basing it on vehicle registration, they offered a variety of alternatives to make the plan more fair.

Many consumer participants recommended that rationing be based on drivers licenses. A drivers license-based plan would be more equitable, they maintained, especially to those households whose members share a car. Those licensed drivers who do not own a car at all would still have access to coupons to allow them to meet their driving needs.

A drivers license-based plan has important advantages over a vehicle-based plan, claimed Steve Irving of PLUG. Because licenses do not change owners, there would be no need for a mechanism to deal with the buying and selling of cars, a mechanism which would be needed under a vehicle-based plan. "Since most states prohibit duplicate licensing," he said, "it is easier to check for this problem than to verify that a vehicle is, in fact, operational.

Albert Fritsch of Appalachia-Science in the Public Interest suggested in his written testimony that the plan be a drivers license-based one that factors in the greater driving needs of rural Americans. "Mass transit in southern Iowa is two farmers in a pick-up," said Sheila Sidles of the Iowa Consumers League.

Others suggested that all adults be eligible for gasoline allotments. Because everyone has mobility needs that cannot always be met by public transportation, they said, everyone should have access to the coupons. "Since all Americans must share in the plummeting purchasing power of the dollar, the increasing vulnerability of the U.S. economy to recession and unemployment, and all the other destructive side-effects of our country's gluttonous appetite for petroleum, it seems only fair that all Americans should also share in any benefits associated with it, including the distribution of valuable rationing rights," stated Carter Henderson.

If gas ration coupons were distributed to all adults 18 years of age and older, according to Ruth Kornfield of the Alternative Energy Resources Organization in Billings, Montana, habitual consumers of large quantities of gas would be encouraged to cut down. "Those who use less gas would be encouraged to continue to do so, and non-car owners could use their coupons for car pools and could sell them on the open market," she said.

Consumers offered a variety of suggestions for making gas coupons available to all adults. Gerald Eaton of the Concord, New Hampshire Community Action Program supported a completely new registration system, not unlike the one instituted by Selective Service. Others suggested using the Social Security system, and still others recommended tying gas rationing to voter registration. "What could be more fair," asked Rosazza, "than to send the gas coupons to every registered voter? This would encourage our citizens to register, if they have not, and participate in the democratic process."

Several who advocated inclusion of all adults in the plan suggested coupons be useable as bus tokens as well. "Such a plan would stimulate use of public transportation as well as provide some relief to those hardest hit by shortages and rising prices--the poor," said Nell Weekly.

"The government could go further to encourage use of public transit," said Amefika Geuka of ADG and Associates, consultants in community and organization development in Rochester, New York, by allowing ration coupons to be exchanged for mass-transit passes of greater face value than the ration coupons. Similarly," he said, "$50 worth of ration checks could be used to purchase a $60 or $75 bicycle, with a DOE subsidy to the merchant for the difference." Geuka suggested the funds for these subsidies could come from windfall profits accumulated by the oil companies.

Still another alternative suggested is allocation by family size. John Holtzclaw of the Common Cause California Energy Task Force proposed a basic allocation be given to a family of one person. A family of two would receive a 50% greater allocation. Families of three or more would receive a double allocation. This approach, he said, recognizes the needs of larger families without providing incentives adequate to lead to larger families.

Finally, some suggested modifications to the vehicle registration plan which is at the heart of DOE's current proposal. If it is administratively impossible to implement initially a plan based on people rather than vehicles, said Carl Pope of the Sierra Club, then the vehicle-based plan could be put into effect, with the stipulation that after four months a transition would be made to a system in which all adults are eligible for gasoline rights. The transition period would give the government time to compile needed information, Pope said, while providing the opportunity for households dependent on several vehicles to make alternate transportation arrangements.

Robert Vredenburgh of Vermont Action on Energy said he prefers a drivers license-based plan but offered a compromise vehicle-based plan which would reduce the incentive to own more cars. Each household with a car would receive one allotment under his plan. Owners of second and third cars would get only half and a quarter allotment respectively, and so on.

State ration reserves

The 5% state ration reserves called for in the DOE plan are inadequate to meet the needs of disabled individuals and to alleviate hardship, claimed several, including Martha Anderson of the 8th Consulmatic District for Disabled Women in Los Angeles. Several representatives from organizations of disabled individuals stressed the importance of assuring sufficient gasoline for handicapped people who are often entirely auto-dependent and who often must drive gas-guzzling vans to accommodate their wheelchairs. Vivienne Thompson of the Massachusetts Association of Paraplegics, pointed out that in the past "there was a special committee set up to draw the guidelines for meeting the needs of the handicapped under gas rationing, and even though the Department of Energy has been asked on several occasions to set up such a committee, to my knowledge no such committee has been formed." Thompson requested "the guidelines from the old committee be looked into and presented into this new plan, as the needs of the handicapped were very well outlined."

Consumer participation

A major drawback of the proposed plan, consumers said, is its lack of continuing consumer participation. "The plan contains no provisions for ongoing evaluations of its progress," charged Roger Colton of the Iowa Citizen/Labor Energy Coalition. "The need for such ongoing evaluations," he said, "should be almost 'truisms' in the federal government." The ongoing participation of rural consumers is particularly important, he maintained, if the plan's stated goal of assuring adequate fuel supplies for the production of food and fiber is to be met.

"The New York State Alliance of Community Action Programs," Rose Brown said, "believes the Administration must provide stronger language as to the make-up of the local rationing boards." She urged that the boards be constituted along the lines of local community action agency boards of directors: one-third local elected officials, one-third private sector representatives, and no less than one-third consumer representatives. "Such composition at the local level would insure maximum feasible citizen participation in the development of local policies," she said.

Sid Wolinsky of Public Advocates suggested the President appoint a seven-person national citizens energy commission. This national commission, he said, "should be supplemented by advisory citizens commissions throughout the country to monitor implementation of a rationing program and to provide effective feedback to the executive and other branches of government."

Public hearings

DOE was criticized, angrily by some, for its handling of the hearings. Consumers complained that not enough notice was given to allow most interested consumers to participate. "A greater effort should have been made to inform community and neighborhood organizations," Nell Weekly said.

Other concerns expressed by consumers

- Gas rationing now. Several consumers said gasoline rationing should be imposed now. "This standby plan," said Carter Henderson, "if approved by Congress could not be put into effect until we are bludgeoned to our knees by a 20% gasoline shortage expected to last at least a month. We Americans are petroleum junkies with a crude oil habit in excess of half a billion dollars a day which we can no longer afford," he said. "We have already wasted years in beginning the admittedly uncomfortable process of petroleum withdrawal," he continued. "The longer we procrastinate, the more painful and disruptive it will be; the greater risk we'll run of being forced to cold turkey it--an eventuality our democratic form of government might not be able to withstand."

According to Carl Pope, rationing should be implemented now, "as a positive, regular part of national energy policy, not kept in reserve as a stand-by. It is crucial," he said, "that the Administration adopt rationing as the centerpiece of its long range, ongoing strategy for dealing with oil imports."

- The needs of rural Americans. Family farmers must be included in the setting of food and fiber production goals, so that family farmers will not be squeezed out of the farm production segment of the plan, in favor of giant farms, maintained Roger Colton of Iowa. Another

Iowan, Sheila Sidles, cautioned that farmers' "off-road" vehicles include more than tractors. Farmers also use vehicles to spread fertilizer, inspect fences, and check cattle, Sidles told DOE. These vehicles must not be excluded from a gasoline rationing plan, she said.

- Choice of a base period. Some consumer participants objected to DOE's proposal to use 1978-79 as the base period in determining each state's total allotment. Father McEwen stated that the 1978-79 base period is discriminatory against those states that have moved aggressively since the 1973 Arab oil embargo to reduce their gasoline consumption. He suggested DOE use an earlier base period, such as 1972, and adjust for societal changes such as population shifts. "States that have historically wasted gasoline will get proportionately more under the DOE plan," said Russ Crawford of the Louisiana Energy Council. New Yorkers, who have reduced their state's consumption of gasoline more than 2% per year since 1975 will be rewarded with a reduced allotment of gasoline if a 1978-79 base period is used, according to Rose Brown.

- Establishment of a white market. Consumers who addressed the issue expressed strong support for this aspect of DOE's plan which allows everyone the freedom to buy, sell, or barter coupons.

- Ration rights bank accounts. Few consumers addressed this aspect of the plan, but those who did expressed confusion as to how it would work. Some said a complex banking plan would exclude poor people who are already underrepresented in the nation's banking system.

- Which services should be classified as "priority." John Nyhan of the Massachusetts CAP Directors urged that human service activities such as Community Action Agency activities, home health care services for the indigent, meals on wheels for the elderly and school bus transportation for children, be added to the definition of priority class activities. Rick Echola, representing the Midwest Association of Farmworker Organizations, urged that migrant farmworker agencies also be included as a priority class activity.

Pointing out that the plan classifies "energy production" companies as priority class activities to receive supplemental fuel allotments, Vredenburgh of Vermont Action on Energy recommended the definition of energy production be broadened to include weatherization activities since "conservation activities produce energy by making more energy available."

Other suggestions

Amefika Geuka made a series of unique suggestions to improve the proposed plan:

-- Institute a toll-free line at the Department of Energy to answer consumers' questions about rationing.

** Each member of Congress should schedule public hearings in his or her district as soon as the DOE plan goes to the legislature.

** Highly fuel-wasteful activities such as auto racing should be banned.

** All new cars should be made incapable of exceeding 55 miles per hour.

Mr. SWIFT. Mr. Rosenfield?

STATEMENT OF HARVEY J. ROSENFIELD

Mr. ROSENFIELD. Mr. Chairman, members of the subcommittee, my name is Harvey Rosenfield, and I am an attorney with Congress Watch, an advocacy arm of Ralph Nader's Public Citizen. Public Citizen is a consumer organization with over 70,000 contributors across the United States.

We appreciate the opportunity to discuss the latest standby rationing plan and the more profound issue of what role rationing will play in this Nation's effort to deal with our energy problems.

Before us today is the Carter administration's second gasoline rationing plan. When we last left this difficult subject in May of 1979, the House of Representatives had just rejected the Department of Energy's first rationing plan by a vote of 159 to 246. The delicate compromise which had been achieved in the Senate between urban and rural interests collapsed on the floor of the House. The obvious shortcomings of DOE's plan, combined with the waffling of the White House stimulated a divisive floor fight, with each faction arguing for favored treatment of different regions or constituencies.

The standby plan was sent back to DOE. Some of us wondered whether it would ever return. Over a year later, it has.

Unless Congress disapproves, the President will implement this new rationing plan upon the occurrence of a shortage of 20 percent of daily U.S. gasoline consumption. The plan establishes a coupon ration system, with allocation based on State-by-State consumption patterns and distribution keyed to motor vehicle ownership. The coupons could be freely traded on a "white market." Priority uses are provided for, and businesses would be entitled to supplementary allotments based on their historical needs. The States are required to implement the plan; in particular they must staff and oversee the local rationing boards.

There are many flaws in the DOE plan. Among them, three threaten the integrity of the entire program:

One, the plan uses material wealth—in this case, motor vehicle ownership—as the criterion for determining who will receive ration rights. This poses a serious problem of equity. DOE's own studies indicate that basing entitlements on automobile registration discriminates against lower income households, while a drivers licensed-based plan would also be biased, but on the side of the poor.

Two, setting the trigger at 20 percent is absurdly high. A 20-percent shortage is an extremely severe shortage, particularly if one follows the conventional wisdom that last year's gas lines were caused exclusively by a cutoff of Iranian oil, which accounted for about 5 percent of our daily imports.

Three, most important, the plan makes no provision for controls on prices, even though DOE has the authority to impose controls, and the agency seems to recognize that rationing during shortages would most likely cause an unacceptable explosion in energy prices.

In many respects, the more obvious flaws in the new plan can be attributed to efforts to accomodate congressional objections expressed during the skirmish over the original plan. Indeed, the broad outlines of the plan were not chosen by DOE, but were mandated by amendment to the law authorizing DOE to create a standby plan. These changes were made by Congress after the first plan failed.

Nevertheless, neither the politics of rationing nor the laws governing DOE can explain the many deficiencies of the latest proposal.

Strangely, DOE itself has been the first and most vociferous critic of the program. Rarely have we ever heard a Federal agency describe its own work in the negative, almost contemptuous way that this rationing plan has been described by its authors.

Deputy Energy Administrator Douglas Robinson told a Senate panel, "a substantial portion of the American people would be unhappy" under rationing. He said 10 or 15 million Americans might not receive rations to which they would be entitled.[1] DOE's publicity releases have compared the plan to the social security system in scope and size—a less than optimistic metaphor.[2] Secretary Charles Duncan called it, "enormously complicated" and shrugged it off by saying it is "the best we could advise."[3]

Why, after a year of further study, the expenditure of several hundred thousand dollars, and the assistance of a massive bureaucracy, has DOE produced so offensive and seemingly unworkable a plan?

The answer appears to be that the administration wants America to view rationing as a temporary procedure, to be utilized only in an emergency, just in case the benevolence of OPEC, the patriotism of the oil companies and the salvation of synfuels somehow fail to deliver our 20-million-barrel-per-day dose of energy. The Carter administration has deliberately written a rationing plan which no one would think of implementing absent a disaster, a plan that is, according to DOE itself, "ill-suited for use except in response to a severe petroleum supply interruption."[4]

My purpose today is to suggest that rationing can and must become a major portion of today's energy policy.

Congress should pass a law requiring immediate rationing. The proposed standby plan could be used as a basis for such a program, with a waiver of the 20-percent trigger, of course, and other necessary changes.

The Nation's current energy policy can be reduced to three words—conservation by price. This is the strategy of allowing, or even forcing, the price of energy to rise in order to reduce consumption.

---

[1] Testimony before Senate Energy Subcommittee on Energy Regulation, June 2, 1980.

[2] DOE News, June 1980.

[3] Washington Post, June 13, 1980, p. A10.

[4] Progress Report to Congress, p. 2-9 (June 1980).

It is an incredibly inequitable policy. Decontrol of oil prices, gasoline taxes, or schemes like President Carter's unsuccessful oil import fee simply price consumers out of the energy market.

Suggestions have been made that Congress utilize tax breaks or rebates to recompense those who would be particularly victimized by higher energy costs. But such proposals ignore the political realities of Capitol Hill. In distributing the proceeds obtained by the meager windfall profits tax, for example, Congress chose to fund a massive synthetic fuels boondoggle and a dozen other pet projects the energy industry wanted and Members liked.

Only 5 percent of the $1 trillion consumers will pay to the oil companies over the next 10 years as a result of decontrol of domestic oil has been earmarked as energy aid for low-income American families.

In any event, conservation by price allows the wealthier members of our society to purchase—and perhaps waste—as much energy as they wish. That is neither sensible, as a matter of conservation policy, nor fair.

Moreover, cutting down consumption alone will not improve our short-term energy dilemma because the problem is the greed of OPEC and the oil conglomerates. Reduction of energy use by Americans means that OPEC and oil industry profits go down. So the cartel and its American partners must raise the price of crude in order to offset the loss in volume. Thus, OPEC countries recently raised their prices despite the fact that America has reduced its oil consumption by around 7 percent from 1 year ago, and despite the fact that the world oil market is glutted.

Energy independence through high-priced energy is a cruel hoax upon the public. It will never succeed in stabilizing the economy or reducing the trade deficit, but it does guarantee a continuation of the 1980 double-digit inflation which followed the surge in energy prices during 1979.

Clearly, the most efficient and equitable means of gaining some control over the price and supply of energy and of fostering the development of alternative resources is to set a limit on the amount of oil we are going to use and then immediately institute a fuel rationing system to distribute it so that every American receives a minimum amount.

While rationing would cap consumption, it would not brake energy-propelled inflation, nor would it sever the OPEC/oil industry stranglehold on the U.S. economy. Price ceilings on oil or petroleum products would allow America to set the price, rather than the nations of the Middle East or the giant oil corporations. With price controls, the energy industry would be denied the enormous windfall resulting from rationing, and further attempts by oil producers to raise the world price beyond the U.S. ceiling would be met by great resistance from the United States. One can envision as a result the commencement of negotiations—long overdue—between producer states and this country for a rational, long-term energy pricing and production policy.

A comprehensive and equitable rationing plan, developed as part of a national conservation program, constitutes our best hope for a degree of energy security in the near term.

We are well aware of the criticisms which have been leveled against such a program. A rationing program would be expensive and cumbersome to administer and would require some sacrifice from all Americans.

The failure of the Department of Energy to administer the current price and allocation system efficiently and wisely has left many reluctant to rely on the regulatory structure in the future.

But these arguments are, in fact, indictments of the ability of democratic government to act effectively and equitably to protect all its citizens. An energy policy of conservation by price unacceptably makes those least represented in Washington—the poor, the aged, those on fixed incomes—the victims of mediocre leadership.

Rationing should be elevated from its status as a "no win" emergency proposition to that of a major instrument of our national energy policy.

Genuine cooperation among Congress, the Federal Government, the States, and the people can accomplish this. We stand ready to assist the subcommittee in whatever way possible in this effort.

Thank you very much.

Mr. SWIFT. Thank you, Mr. Rosenfield.

Mr. Thompson?

STATEMENT OF GIL THOMPSON

Mr. THOMPSON. I submitted some material for the record [see p. 171]. If I can just take a moment.

My name is Gil Thompson. I am with the Urban Environment Conference, an alliance of labor, civil rights and environmental organizations founded by the late Senator Philip Hart.

The Urban Environment Conference asks the Congress to reject the administration's proposed standby rationing plan because by allocating gasoline based on number of automobiles owned, it is unfair to the Nation's low- and moderate-income families and punishes conservation while rewarding waste.

In a letter to President Carter urging him to adopt a fairer method of allocating gasoline, signed by 26 national consumer, labor, and environmental organizations, we pointed out that rationing gasoline based on the number of cars a person owns is like rationing food based on how many refrigerators a person owns.

This plan discriminates against carless and one-car, often low income households, in favor of more affluent multicar households, and will create an enormous incentive to hold on to old gas guzzlers merely for the valuable gasoline allocation they represent.

We think all adult Americans deserve a fair share in whatever amount of gasoline is available, at a reasonable price.

The Urban Environment Conference favors gasoline rationing as a workable method for energy conservation and reduction of foreign oil imports, which should be implemented before a serious shortage develops, but only after a fair allocation system is designed.

Congress should pass legislaton setting out the broad design of a conservation-oriented rationing system and a date when it would go into effect, for the administration to implement.

The current plan, which will go into operation some 90 days after being triggered by a serious emergency, is not designed to encourage conservation. It will be difficult to implement this unfair plan after 90 days of chaotic, frustrating, wasteful lines at filling stations, in an emergency far worse than the shortages so far.

Instead, we should gradually phase in a fair, conservation-oriented system in an orderly fashion before a shortage develops. We think that Congress, which has rejected a tax as a method of limiting oil imports, should act now to institute an equitable system of rationing.

[Attachments to Mr. Thompson's statement:]

URBAN ENVIRONMENT CONFERENCE, INC.

Founded By:
Philip A. Hart
1912—1976

666 - 11th Street, N.W. • Washington, D.C. 20001 • 202 638-3385

June 12, 1980

STATEMENT ON PRESIDENT CARTER'S GASOLINE RATIONING PROPOSAL

The stand-by gasoline rationing plan that the President has sent to Congress today is so inequitable to the nation's senior citizens and its poor, as well as to conservation-minded people of all stripes, that the Urban Environment Conference calls upon Congress to reject this plan.

While we support gasoline rationing, we are calling upon Congress to demand a plan that rewards conservation instead of waste, and that shares our nation's limited resources equally among all citizens instead of taking from the poor and giving to the rich. We are calling for a plan that allots ration coupons to all adults instead of to all cars.

Despite virtually unanimous testimony by citizen groups around the nation before the Department of Energy, the Administration has stubbornly refused to address the basic question of human mobility needs--poor people who share a car to work, elderly people who rely on friends to get to the doctor, and others who need gas coupons but don't own a car. Instead, this unconscionable plan rewards the well-to-do three-car family and the hoarder who keeps extra cars for their coupon value.

We urge legislators to remember that it is people--and not cars--who vote on election day. We urge Congress to reject this unfair plan.

URBAN ENVIRONMENT CONFERENCE, INC.

Founded By:
Philip A. Hart
1912—1976

1302 - 18th Street, N.W. • Washington, D.C. 20036 • 202 488-6040

June 2, 1980

The Honorable Jimmy Carter
President of the United States
The White House
Washington, D.C. 20500

Dear President Carter:

We are writing to express our concern about your Administration's proposed standby gasoline rationing plan which will shortly be sent to Congress.

Although we support the concept of rationing as the fairest way of distributing limited resources in a shortage, we are opposed to the distribution of ration coupons based upon automobile ownership, as proposed by the Department of Energy.

We feel that an auto-based rationing plan is inequitable because it discriminates against carless and one-car, often low-income, households and favors more affluent multi-car households. Furthermore, we feel the plan is politically unjustifiable because it punishes those who are carpooling, ride-sharing and cutting back on consumption while rewarding those who wastefully continue thier old ways -- or who even purchase additional cars for their additional ration coupon value.

To make an analogy, we feel this would be like rationing water based on a household's number and size of swimming pools, or rationing food on how many refrigerators a family owned. We do not feel this is a good basis for federal policy.

While we understand the difficulty of designing and implementing a rationing plan, and while we are aware of the importance of having a standby plan ready for an emergency, we strongly urge you not to send the Department of Energy's current proposal to Congress in its present form.

At a minimum, the undersigned organizations support a rationing system based on drivers' licenses rather than on auto registration. This would instantly add 25 million Americans to the "mobility pool" who would otherwise be left out. Several of the undersigned support an even broader coupon distribution mechanism, such as one based on voter registration records, social security or a brand new registration system.

Wile we are not necessarily unified in our support of a specific alternative, we wish to reiterate our strong opposition to an auto-based rationing plan as the worst of all choices. We urge you to choose a

The Honorable Jimmy Carter
Page 2.

more equitable scheme before sending the plan to Congress where it must be approved or rejected without amendment within only 30 days.

Sincerely,

George Coling
Coordinator

Pablo Eisenberg, President
Center for Community Change

Michael F. Jacobson, Ph.D., Executive
Director
Center for Science in the Public Interest

Robert M. Brandon, Director,
Washington Office
Citizen-Labor Energy Coalition

Ellen Berman, Executive Director
Consumer Energy Council of America

Kathleen F. O'Reilly, Executive Director
Consumer Federation of America

Edwin Rothschild, Director
Energy Action

Claudia Comins, Executive Director
Environmental Action Foundation

Harriet Barlow, Director
Institute for Local Self Reliance

William Winpisinger, President
International Association of
Machinists and Aerospace Workers

John R. Martin, President
National Association of Railroad
Passengers

Bernard Veney, Executive Director
National Clients Council

William Ray, Government
Relations Specialist
National Community Action Agency
Executive Directors Association

Steven Ferrey, Counsel
National Consumer Law Center

Sandra L. Willett, Executive
Vice-President
National Consumers League

Raul Yzaguirre, President
National Council of La Raza

William R. Hutton, Executive Director
National Council of Senior Citizens

Maudine R. Cooper, Acting Vice-President
for Washington Operations
National Urban League

Nolan W. Hancock, Citizenship/Legislative
Director
Oil, Chemical and Atomic Workers
International Union

Harvey Rosenfield, Staff Attorney/Energy
Public Citizen's Congress Watch

David Ostendorf, Director, Energy Project
Rural America

Barbara E. Rose, Executive Director
Rural Coalition

George Hardy, President
Service Employees International Union

Douglas W. Scott, Director of
Federal Affairs
Sierra Club

Frank X. Viggiano, Executive Director
United States Student Association

Fred Dodd, President
Washington Area Bicyclists Association

URBAN ENVIRONMENT CONFERENCE, INC.
Founded By:
Philip A. Hart
1912—1976
1302 · 18th Street, N.W. • Washington, D.C. 20036 • 202 466-6040

January 31, 1980

The Honorable Charles W. Duncan, Jr.
Secretary
U.S. Department of Energy
Washington, D.C. 20585

Dear Secretary Duncan:

We are writing you to express our concern about reports that the Department of Energy's standby gasoline rationing plan calls for the distribution of ration coupons to be based upon automobile ownership.

We feel that an auto-based rationing plan is inequitable and unfair because it discriminates against carless and one-car often low-income households in favor of more affluent multi-car households. Furthermore, we feel that plan is politically unjustifiable because it punishes those who are conserving and cutting back on consumption while rewarding those who are wasteful. This is not a good basis for federal energy policy.

While we understand the difficulty of designing and implementing a rationing plan, and while we feel rationing is a good way of distributing resources during a shortage, we strongly urge the Department to delay sending the current porposal to Congress until the following analysis is completed and the results considered:

1. What are the mobility needs of carless households, and how are they presently being met?

2. What are the benefits and drawbacks of more broadly-based coupon distribution systems, such as those relying on social security registration, voter registration, or a brand new registration program (i.e., comparable to Selective Service registration)?

While the undersigned are not necessarily unified in our support of any particular alternative, we wish to reiterate our opposition to an auto-based plan. We urge you to explore the alternatives before sending the plan to Congress where it must be approved or rejected without amendment within only 30 days.

Sincerely,

George Coling
Coordinator

(List of signatories continued next page.)

Charles W. Duncan, Secretary
Page 2.

List of signatories, continued:

Howard G. Paster
Legislative Director
Int'l Union, United Auto Workers

Sandra L. Willett
Executive Vice President
National Consumers League

Maudine R. Cooper
Acting Vice President for
Washington Operations
National Urban League

Claudia Comins
Executive Director
Environmental Action Foundation

Barbara E. Rose
Executive Director
National Rural Center

Harriet Barlow
Director
Institute for Local Self-Reliance

Michael F. Jacobson, Ph.D.
Executive Director
Center for Science in the
Public Interest

Fred Dodd
President
Washington Area Bicyclists
Association

William R. Hutton
Executive Director
National Council of Senior
Citizens

Ellen Berman
Executive Director
Consumer Energy Council of
America

David Ostendorf
Director, Energy Project
Rural America

Raul Yzaguirre
President
National Council of La Raza

William U. Chandler
Washington Representative
Environmental Policy Center

William Ray
Government Relations Specialist
National Community Action
Agency Executive Directors
Association

Bernard Veney
Executive Director
National Clients Council

Rafe Pomerance
Legislative Director
Friends of the Earth

Mr. SWIFT. Thank you very much.

Murray Kempton I think said that an editor is someone who comes down out of the hills after the battle and shoots the wounded.

Having sat through virtually all and chaired most of the hearings on the rationing plan last summer, I am keenly aware of the fact that we all reserve to ourselves the right to be an editor.

I think we all recognize developing a rational conservation plan is an extraordinarily difficult thing to do, and that public interest groups, special interest groups, the Congress itself, seem to be saying to the administration, "Come up with a plan. We reserve the right to criticize whatever you do."

The 20-percent trigger came right out of this subcommittee. That is not DOE. It came out of this subcommittee. I am amazed at the number of people who are not here now that were here last summer. That is because they have all been given a priority status in this thing, and that is what they were insisting on.

The three words that you could not avoid during these hearings are "fair," "equitable," and "rational." Eliminate those three words from everybody's testimony and you would have nothing but a shred of Swiss cheese. Yet no one agrees on the definition of those words.

You have been suggesting that the Congress is going to have to take this bull by the horns. I suspect that you are right on. Congress, I think, can no longer put itself in the position of being the editor who will send the responsibility downtown and reserve the right to come down out of the hills after the plan comes back up and shoot the wounded.

The plan they have proposed has been responsive to all of the groups who criticized the last plan as unreasonable and inequitable. Now we have a new set of things.

But I suggest it is not only the Congress that has to stop being an editor. I think that is also the public interest groups, special interest groups, and citizens of this country.

If we are going to have a plan, it is not going to be perfectly acceptable to everybody. We are going to have to stop being editors and try to become part of the solution to the problem.

Pardon the sermon. It is directed only to you in the sense that I am directing it to everybody, including the members of this committee. If you have any comments in rebuttal, I would be glad to hear them.

Thank you very much for providing us with your insights on the issue.

The next panel is Dr. Frederic N. Firestone, visiting professor of economics, University of Virginia, and Mr. Joe Cobb, Director of Energy Policy, Council for Competitive Economy.

We will be happy to hear first from Dr. Firestone.

STATEMENTS OF FREDERIC N. FIRESTONE, PH. D., VISITING PROFESSOR OF ECONOMICS, UNIVERSITY OF VIRGINIA, AND JOE COBB, DIRECTOR OF ENERGY POLICY, COUNCIL FOR A COMPETITIVE ECONOMY

Dr. **Firestone**. Mr. Chairman, I am Frederic N. Firestone, visiting professor of economics at the University of Virginia. I specialize in microeconomics, which is the study of pricing and allocation.

I shall limit my testimony to one feature of the administration's proposed standby gasoline rationing program—salability of ration rights.

The basic problem rationing resolves is that of inflationary pressure when supplies are short. By reducing demand, rationing relieves the inflationary impetus. Under the Emergency Energy Conservation Act of 1979, a further value is to be preserved: The rationing plan "* * * should provide, to the maximum extent practicable, that the burden of reduced supplies of gasoline * * * be shared in a fair and equitable manner, and that the economic and social impacts of such plan be minimized * * *" [Public Law 96-102, sec. 101, 93 Stat. 750]

Both these objectives of the proposed plan are defeated by its provision for salability of ration entitlements.

Absent salability of entitlements, the equilibrium price which equates supply and legal demand would be no higher than the preshortage price. This presumes, of course, that entitlements are issued for no more gasoline than is available.

But permitting the sale of entitlements increases demand dramatically, bringing an equilibrium price of gasoline plus coupon substantially higher than the prerationing price. This is recognized by the Department of Energy. Its June 1980 "Progress Report to Congress on the Standby Motor Fuel Rationing Plans" [section 4.3.1.2] notes this prospect, discussing coupon prices ranging from $1.70 to $5.98 per gallon. I believe coupon prices would be substantially higher than DOE's high figure, for two reasons.

First, the DOE measure of buyer sensitivity to price—elasticity of demand—upon which the estimate depends, is based on data of earlier years with lower prices than at present, and with aggregate sales larger than at present. As higher prices lead drivers to cut back gasoline purchases, they restrict themselves more closely to what they consider essential driving, and thus reveal less sensitivity to price—elasticity of demand. This results in smaller reductions in purchases per dollar increase in price, and thus a higher coupon price.

The second reason for a higher coupon price than estimated by DOE is that the market for coupons would not merely reflect the simple supply and demand functions described in a freshman economics course. A heavy influence on coupon price—and probably the predominant influence—would be that of expectations. Each coupon buyer would be betting on two issues—the quantity of later entitlements and the probable future price of coupons.

With a free market for coupons there would be a considerable incentive for speculators to buy and sell both coupons and futures on coupons. It is characteristic of a market of such uncertainty that the entrance of speculators results not in a leveling of prices through arbitrage, but in price fluctuations and—with expected continuing shortages—an upward trend. The reason for this is that both spot and future prices depend on the expectations of speculators as to the expectations of other speculators and end users.

The expectations of the last two groups depend in turn on their assessment of the expectations of others, and so on. This relationship parallels that of the market for demonetized gold. But in contrast to the high-asset gold speculators, the parties affected by coupon speculation include many middle-income individuals and some low-income persons whose urgent gasoline needs, including transportation to work, are higher than most.

By building the rationing system into the Nation's banking system, the proposed plan creates a further intractable inflationary problem. Under sections 570.61 and 570.62 of the proposed addition to 10 CFR, individuals as well as firms may establish checking accounts for ration rights and issue checks upon the accounts. While overdrawing of the accounts is forbidden, banks are permitted to buy and sell coupons. Thus, it is permissible for banks to provide for overdrawals for a fee. In view of the penalties in the absence of this provision, it is expectable that its price would be high.

Gasoline retailers are among those who may traffic in coupons under the proposed plan. While they are required to cancel coupons as they are received [section 570.44] this rule would in practice be unenforceable unless an army of DOE agents checked every gasoline station in the Nation daily. Since the plan permits retailers to buy and sell coupons, they would be able to offer gasoline, for an inflated price, to any customer who lacked sufficient coupons. Any customer insistent, or naive, enough to ask for coupons for the additional money could be given uncanceled coupons, to be returned immediately to the retailer. There is enough slippage in the system that this could be easily accomplished. Since the gasoline industry is largely vertically integrated, collusion in withholding coupons would be simple.

High coupon prices and consequent high effective gasoline prices would push further inflation through the economy. The proposed rationing plan with salable coupons would thus pour gasoline on the fires of inflation.

Whether the price of gasoline coupons is $1.70 or, as I find likely, significantly more than the DOE high estimate of $5.98, the inflationary prospects are fearsome.

The proposed plan responds to the legislative requirement of "fair and equitable" distribution of "the burden of reduced supplies of gasoline" by permitting purchase of gasoline according to income rather than according to any equitable division. If the plan is approved, it may well become known as the "gas for the rich" plan. Low-income individuals are effectively precluded from access to supplies beyond their coupon allotments, except at the cost of foregoing other essential purchases.

DOE projects that households with disposable incomes below $10,000 would on balance be sellers of coupons. This may well be the case. But the conclusion that these households would find their incomes increased by the amount of coupon proceeds is erroneous, for part of the value would be eroded by the general inflation caused by the program. If the rationing program with salable entitlements is claimed to be a mechanism for transferring income to lower income households, it appears to be one of the most expensive welfare programs ever devised. There are administrative costs of the salability feature. Coupon funds paid by buyers accrue largely to speculators in the coupon market, not to those who forego the use of gasoline.

The fact that sellers of coupons are voluntary sellers tells us nothing about the fairness or equity of the system unless we assume that the predominantly low income of sellers is in itself fair and equitable.

The President's proposal can be modified by Congress only after amendment of section 103(b) of the Emergency Energy Conservation Act of 1979. Such amendment is too cumbersome to be accomplished within the brief time permitted for both Houses to express disapproval. Since the proposal is thus on a take-it-or-leave-it basis, it may be tempting to accept the argument of Hazel R. Rollins, Administrator of DOE's Economic Regulatory Administration, in her testimony here earlier this week, "To continue pushing it back, year after year, saying, 'It is not perfect,' just leaves us so naked, so vulnerable, that it seems to me to be insane." Mr. Chairman, while I am opposed to nudity in Government offices, I do not find this argument compelling.

The defects of the proposed plan are not ones that leave it just short of perfection. The salability feature makes it absolutely impossible for the plan to accomplish either of its basic purposes—containing inflation in the gasoline market, and sharing of gasoline in a fair and equitable manner.

The provision for one-House veto of the plan's implementation provides no protection from the harsh results of coupon salability. One foreseeable use of the plan is for a President to push an unwilling Congress and an unwilling public into accepting enormously higher gasoline prices by the mere threat of implementation. The threat, even in the face of uncertainty of congressional approval, would be very real since implementation would clearly drive effective prices of gasoline far beyond any price previously seen in this Nation.

For these reasons, I strongly recommend the rejection of the proposed plan, with the expectation that it would be replaced as soon as possible, perhaps early in the next session, by one eliminating the salability feature.

Mr. Chairman, I thank you for the privilege of testifying.

Mr. Swift. Thank you very much, Mr. Firestone.

Mr. Cobb?

STATEMENT OF JOE COBB

Mr. Cobb. Mr. Chairman and members of the subcommittee, I am Joe Cobb, director of energy policy with the Council for a Competitive Economy. The Council is a national membership organization of businesses and individuals dedicated to the maintenance of a free market economy, distorted neither by taxes and regulations nor by protection, subsidies, and special privileges for business. I am speaking on behalf of our membership of over 1,000 companies and individuals nationwide.

In my comments today, and the additional material I have included for the printed record [see p. 184], I want to convince you to vote in favor of House Resolution of Disapproval 575 to reject the administration's standby gasoline rationing plan.

You have heard testimony from the U.S. Department of Energy in which Ms. Hazel Rollins confessed that the gasoline rationing plan they have drafted "is not perfect." The chairman of this subcommittee was quoted in the press earlier this week, agreeing that the plan is not particularly good, but he was quoted as saying that the Nation has to have a standby gasoline rationing plan, even if this is one is not the best.

I submit to you, gentlemen, this gasoline rationing plan is not only "imperfect"; it won't work at all. In a time of crisis, to implement this gasoline rationing plan would make the crisis much, much worse that it otherwise might be. The United States would be much better prepared for a sudden shortage of gasoline and oil if no plan at all were approved, than if you allow this plan to pass. To approve this gasoline rationing plan would be just like keeping a loaded gun in your house to prevent robbery and then discovering that your children have shot themselves with it. The Congress not only should disapprove this standby gasoline rationing plan, it should repeal the legal mandate that requires the Department of Energy to develop such standby emergency plans.

I want to make two points in my testimony today. I want to show you why this gasoline rationing plan will not work; and I want to show you that any gasoline rationing plan will not work; and I want to show you that any gasoline rationing plan will be both imperfect and inferior to a free-market policy during a crisis.

There is a false assumption behind the idea of coupon rationing. This false assumption appears in the economics textbooks also, but at least in the textbooks the author tells you his assumptions. In the real world, the false assumption can be fatal.

The false assumption is that we are using ration coupons in one nationwide market. In truth, there are thousands and thousands of separated, local markets for gasoline. You have listened to discussions about the number of coupons to be alloted to each State and the number of coupons that business, agriculture, and commuters should receive. Once you distribute these coupons, however, nothing assures people that there will be any gasoline at their neighborhood service stations to buy with the coupons.

If one motorist drives across town and buys gasoline with his coupons, the allocations will shift slightly out of balance in that part of town. If some people send their coupons by mail to friends or relatives across the country, there will be a relative shortage of gasoline in the city to which the coupons are sent and a relative surplus in the city where the coupons were issued. The transportation costs of the coupons are nearly zero; the transportation costs of the gasoline itself are much larger. The forces of supply and demand will encourage an active trade in coupons, no matter whether the resale market is a legal, white market, or an illegal, black market.

You might ask, why wouldn't the gasoline be distributed to dealers in accordance with the changing pattern of coupon-demand? The answer is that there is no incentive, and maybe even a legal restriction, against people moving the gasoline from city to city in response to a shift in the market for coupons. Consider what happens if people in Los Angeles, for example, get extra coupons from friends in New York—or perhaps they buy them from some mail-order dealer in New York—and they use them, in addition to the coupons the government issued in Los Angeles.

The service stations in Los Angeles will run out of gasoline, because there will be an excess supply of coupons. Once a dealer runs out, he will close his station. He will not continue to collect coupons, so he couldn't use the surplus coupons in Los Angeles to buy the gasoline from a New York refiner and ship it across country—even assuming the Department of Energy allocation rules would permit him to do it.

In a free market, this sort of problem is solved by raising money in the capital markets and investing in future gasoline inventories, trading them and moving them to the areas of greatest demand. This is speculation, for profit; and this gasoline rationing plan is supposed to prevent exactly that kind of speculation for profit. The resale market for coupons, the "white market," is only a market for final demand.

There is no design in this standby gasoline rationing plan for a capital market in coupons—and, indeed, it is not possible to design such a market.

This gasoline rationing plan will not only fail to prevent lines at the gasoline pumps, it will introduce new problems that will make the lines at the pump longer—as well as making people stand in line to buy coupons at banks.

The Department of Energy has already told you, in its Progress Report to Congress on the Standby Motor Fuel Rationing Plans, on pages 2-11, paragraph 2.4, "Rationing and the Price Level," that the rationing plan will not keep the price from increasing during a crisis:

> If during the shortfall, however, the world price of crude were to rise to a level that would push the price of gasoline at the pump up to its new equilibrium level, then there would be no shortage. In such a case, ration rights would have no value and rationing would serve no purpose.

Mr. Chairman, that is exactly what would happen in the 90 days preceding the issuance of coupons.

In conclusion, I want to show you why the Nation would be better prepared for an emergency if you reject all ideas for a standby gasoline rationing plan and make it known in advance of a crisis that the official Government policy should be a free, unregulated market.

In the first place, the question is whether or not it is possible to design an economic system that works better than a free market. I can't possibly prove to you in the next 2 minutes that the free market is superior, but let me introduce the question—so that you can ask it yourselves as you consider this rationing plan, and any future such schemes.

There are two questions: One, what is the best way to allocate scarce resources; and second, what is the most equitable way to do it. Nobody—no economist, no businessman, no DOE administrator—would try to argue that bureaucratic central planning could possibly be more efficient than a free market. You only have to look at Cuba or East Germany to know that the free market works better than Government economic plans. You can't design a system that incorporates as much decentralized information and profit-seeking motivation as the free market.

The argument about the equity of the free market versus some Government distribution system also comes out on the side of freedom. The essential justice of what Harvard Philosophy Prof. Robert Nozick has called "capitalist acts among consenting adults" is obvious. When people deal with each other voluntarily, respect each other's property, and keep their contracts and promises faithfully, you call it "justice." When people use force or fraud, or exploit each other by means of special privileges and special Government regulations, you call it "injustice." The fact that some people make a lot of money in the free market and other people don't is not a valid criticism of free trade—as long as the ones who make a succcess of it do so honestly.

The Marxist idea that we have to have the government redistribute wealth so that everyone ends up with an equal share is a perversion of the classical idea of equity, which best is summed up by the commandment: "Thou shalt not steal."

The Nation would be better prepared for an emergency if you would adopt a joint resolution that flatly declared the public policy of the United States is to mobilize the forces of its spontaneous, free economy during any emergency or oil crisis and strictly protect the private property rights of its citizens.

In a Rand Corp. memorandum, entitled "Disaster and Recovery: A Historical Survey," prepared for the U.S. Air Force in 1963—memorandum RM-03079-PR, April 1963—Prof. Jack Hirshleifer studied some famous disasters in history, including the Civil War Confederacy and the Hiroshima bombing. His conclusions include the observation that government policies that prevent the free market from adjusting to the crisis tend to prolong the suffering and poverty.

If gasoline rationing is imposed on the United States during even the worst type of crisis, it will prolong the pain and suffering. The quickest way to resolve the problems and restore the health of the economy would be to learn from history and not kill the free market at the very moment that we would need it the most.

You may think that I am being radical in advocating that you declare a public policy in favor of relying on the free market during an oil supply emergency. After all, Congress and the President are expected to do something actively during an emergency; the voting public expects you to save them from the cold, cruel, real world. But Congress can't prevent an oil crisis, if some war in the Middle East should break out. Obviously, it is better to do nothing than to do the wrong thing. This standby gasoline rationing plan is the wrong thing to do.

The free market, after all, is nothing more nor less than every citizen working together, making the most profitable use of the information and resources at his or her command, to solve the problems, demands and needs of other people—by means of voluntary trade.

You hear a lot about "windfall profits" and "poor people who can't afford" the gasoline. But the Department of Energy itself, on page 2 through 11, tells you that this coupon rationing plan won't help the poor people. And there is nothing wrong with people making a profit if the profit motive helps to get the Nation out of the crisis as fast as possible. If you declare it to be our public policy to respect private property during a crisis, and not expropriate or confiscate gasoline inventories, then you will observe some entrepreneurs voluntarily investing in gasoline supplies, which they will keep in a privately financed strategic petroleum reserve—without Government help—just in case there is a shortage. And this private speculation, not in coupons but in gasoline, would help to make the crisis less painful and more quickly resolved.

The Department of Energy itself, in the Progress Report to Congress on the Standby Motor Fuel Rationing Plans, paragraph 2.3.4, "Other Considerations," says:

> Other difficulties inherent in a standby gasoline rationing plan are its high cost (see part 6) and the large Federal bureaucracy that would be required to run the system. In light of these problems and costs, DOE has concluded that rationing can be justified only as a response to a severe gasoline shortage—and even then only if a better alternative cannot be identified.

There is an obviously better alternative: The free market, with millions of individual, profit-seeking entrepreneurs looking for ways to conserve, reallocate, and produce gasoline. The top priority in any crisis should be to get out of it as fast as possible—to make the transition from one state-of-the-world to a new one at the minimum economic and social cost. The logic of economics, as well as the historical evidence gathered by Professor Hirschleifer, demonstrate that a free market is not only the best answer, but it is the ony true answer in a crisis.

Programs like this standby gasoline rationing plan will only confuse the issue. They give the illusion, the false promise, that some sort of political answer exists. They lull people into a false sense of security. Millions of people will not even think about making their individual contingency plans if they believe you are already taking care of them with your unworkable standby gasoline rationing coupons. If it looks like the Government might impose price and allocation controls, or seize the gasoline inventories that some speculators might be holding, they won't take the risks. They won't even try to help.

In my additional remarks for the printed record I have some calculations indicating what the true cost of a free market transition over five calendar quarters would be versus the cost of the administration's standby gasoline rationing plan or Senator Johnston's fee system. Just for your information, the discounted present value costs of a free market transition, assuming a 20 percent shortfall, and certain elasticity assumptions that are given in my notes, would be $4.8 billion, one-time costs—and zero thereafter. Senator Bennett Johnston's fee, for example, would work out at $6.5 billion per year in the short run, and $12.3 billion per year in the long run. The administration's plan has been estimated at $2 billion, ad infinitum, per year for budget costs. My social cost estimates are $4 billion additional. The cheapest way out is the free market.

Mr. SWIFT. Your additional remarks will be included in the record.

[Testimony resumes on p. 207.]

[Mr. Cobb's additional remarks follow:]

Council
for a
Competitive
Economy

Joe Cobb
Director of Energy Policy

June 27, 1980

ADDITIONAL REMARKS FOR THE PRINTED RECORD

TESTIMONY BEFORE THE SUBCOMMITTEE ON ENERGY AND POWER
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
U. S. HOUSE OF REPRESENTATIVES

While there is one recorded instance where a supply emergency was accuratel predicted and perfectly accommodated,[1] in most instances less than ideal circumstances surround the accommodation of a supply emergency. For one thing, the precise nature of the disruption is not known with certainty. For another, the timing of the event is unknown. But even if agreement could be reached on the probable nature and occurrence, the question of policies to cope with the emergency would still remain to be answered.

There are two broad categories of accommodations. One is political and the other is economic. The political approach is to shield favored groups from having to bear their share of the costly adjustment process. Of course, the adjustment burden does not disappear when this is done. It is shifted to the unshielded portion of society. Indeed, this latter group is forced to overinvest in coping with the emergency. Consequently, both the disruption and the political intervention must be accommodated. The clear implication is that political policies which shield some from the near term effects of the emergency add to the costs of adjustment. They are notwithstanding valuable to the political establishment. Consequently, such policies are often adopted.

The kind of emergency of concern these days is one when world supplies are significantly reduced, as they were to a lesser extent when the Iranian revolution shut off 5 to 6 million barrels per day of crude oil (2½ to 3 million barrels per day net, after increases from other producin countries). In the face of such an unexpected event consumers have few

410 First Street, S.E.   Washington, D.C. 20003
(202) 544-3786

options immediately available for changing their consumption patterns and arranging for alternative sources of supply including substitutes. Thus, prices increase sharply as they did even for the modest 5 per cent supply reduction in 1979.

The two accompanying figures show the short run and the long run adjustments to a supply emergency. In the short run, as Figure 1 depicts, there is little which can be done by consumers to alter their consumption patterns and the remaining producers find it very difficult to increase supplies to fill in for the disruption. The result is that prices are forced up by the reduction in the amount available in the market (equilibrium "2" in Figure 1).

With the passage of time, consumers and producers develop alternatives and thereby alter their behavior and become more responsive to the increased scarcity. In Figure 2 this is shown as equilibrium "3" where the more elastic supply and demand schedules yield a more modest price increase than that experienced in the immediate post-disruption period.

By making some assumptions about the short and long run demand and supply elasticities[2] it is possible to estimate the short and long run price changes.[3] By adding initial price ($1.50 per gallon) and quantity (275 million gallons per day) assumptions, the undiscounted transition costs per day can be calculated. Essentially it is the difference between the consumers short and long-term losses, shown as the shaded area in the figure.

Thus the transition costs start out to be on the order of a $200 million per day. If the adjustment process takes five calendar quarters, as it did in the wake of the 1973-74 oil boycott, then the difference declines from an initial $200 million to near zero over that period.[3a] Discounting that declining cost stream at a 15 per cent annual rate suggests that the total discounted transition cost at the time the disturbance begins, is on the order of $4.8 billion.[4]

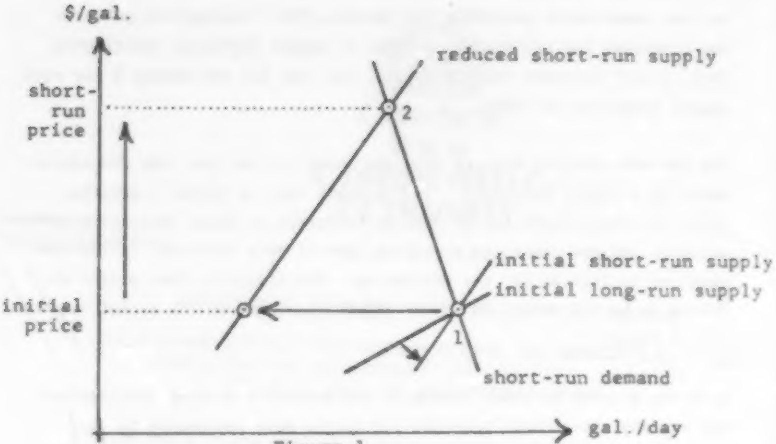


Figure 1

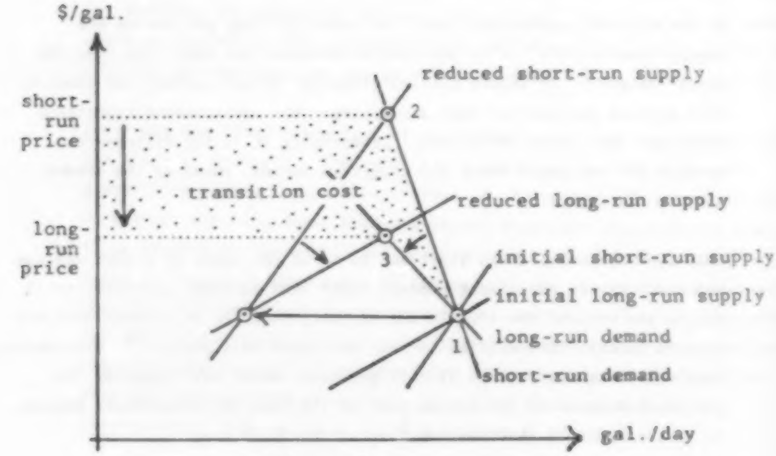


Figure 2

Any policy then, which purports to accommodate a supply emergency must cost less than whatever is saved from the $4.8 billion. Essentially, being prepared to cope with a future disruption is an investment problem, where the discounted value of the savings must be compared with the discounted cost of the investment.

In other words conserving on the transition cost is the economic payoff from facilitating a supply disruption. It is the maximum which might be saved; not necessarily the appropriate amount to establish as an objective. Clearly conservation of the transition cost is itself costly. The economic rule is to incur the costs of facilitating the transition to the point where the savings from the last increment of effort is just equal to the cost.

An important part of such an optimal transition path is the existence of a set of prices which is not distorted by governmental intervention and reflects instead the true scarcity value as perceived by consumers. Without such a set of prices, consumers and the remaining producers will be misdirected in their attempts to make the transition to the new state of the world where one commodity has had its supply permanently reduced.

There are three principal proposals which have been offered to deal with a supply emergency. One is the Administration's gasoline rationing plan of 1978,[4a] subsequently modified in 1979[5] and in 1980.[6] The second is Senator Edward Kennedy's February 1980 campaign proposal for gasoline rationing.[7] The third is Senator Bennett Johnston's recently introduced bill to establish a standby gasoline excise tax/rebate program.[8] All three share the common objective of protecting some motorists from having to pay the higher price generated by the supply disruption.

ADMINISTRATION'S STANDBY GASOLINE RATIONING

The most current version of the standby gasoline rationing system as it has evolved since 1978 is triggered by a 20 per cent reduction in the supply of petroleum products, unless authorized by Congress for a less severe "shortage." Under the plan vehicle owners would receive three checks each quarter which could then be redeemed at post offices, banks, and service stations for a month's supply of rationing coupons. The coupons would have to be presented at service stations and would govern the amount of gasoline a holder could buy. Effectively the price would be a combination of cash and coupons.

Unlike earlier plans, the latest version would not bestow coupons on vehicle owners equally. (1) States which have a history of heavy gasoline use would receive more coupons than low consumption states. (2) Businesses could apply for supplemental allotments if their gasoline consumption in a base period indicated they were heavy users. (3) Food and energy industries, newspaper deliveries, taxis, and car rental companies would receive 90 per cent of the average preemergency consumption or 54 gallons per month per vehicle. (4) Individual nonbusiness vehicle owners would receive a monthly allocation of only 70 per cent or 42 gallons. (5) All other business vehicle owners would receive 80 per cent or 48 gallons per month. (6) Governors would control at least 5 per cent of the coupons earmarked for their states to help in "hardship cases."

The coupons could be retraded in a "white market" and the Department of Energy asserts that if gasoline prices average $1.50 per gallon then coupons would trade at about $2.13, bringing the price paid by motorists to $3.63 per gallon.

The Energy department admits the rationing scheme will be very costly to administer. They estimate it will take almost $600 million and 15 months to set up the rationing scheme and $2 billion each year to operate it. At least a month and a half would be required to bring the plan from standby into operation.

The earlier version of the standby gasoline rationing plan was supposed to involve $53.4 million (1978 dollars) in start-up costs and a little less than $1½ billion in annual operating costs. These like the later estimates are essentially budget costs and exclude many of the broader social costs. Transaction costs involved in the private sector's operation of the white market, for example, are missing from the government budget estimates. Also excluded are the time costs associated with search and waiting in lines for coupons if not the gasoline itself. The government analysis fails to appreciate that eliminating queues at service stations, does not mean that motorists will entirely escape waiting in lines. The location will simply change from service stations to financial institutions where time costs will also be imposed on the other customers of these institutions.

In sum, when one adds in the extra costs excluded in the earlier government analysis, the resources consumed in the rationing scheme comes close to $4 billion per year.[9] The government's own estimate of the set-up cost for the system has increased tenfold from less than $60 million to nearly $600 million for the present plan. Thus, the costs of implementing and operating a rationing plan is by all accounts a multibillion dollar endeavor, and the appropriateness of adopting the policy must depend upon whether the savings to consumers exceed the costs.

As indicated earlier the total savings potential which could be realized from completely avoiding the transition costs is on the order of $4.8 billion dollars. Five quarters of operating the rationing system plus the $600 million to set up the system in advance of the disruption, would put the cost of the coupon rationing well in excess of the free-market transition costs.

Since it is physically impossible to institute rationing instantaneously upon the disruption of supply, the presumption must be that the run up in price would have already taken place. In Figure 3 this is represented by a movement from the predisruption equilibrium "1" to the 20 per cent supply reduction with the corresponding short-run price at point "2." If the coupons are distributed (at zero cost) entirely to consumers who value gasoline at or in excess of the new higher price, then coupons will not be traded and therefore will not command a price in the "white market." Thus, rationing at its best does not reduce the price of gasoline.

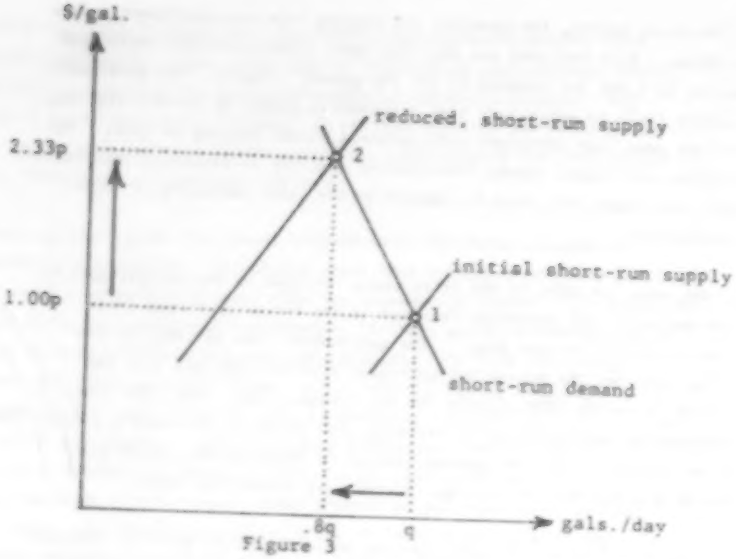


Figure 3

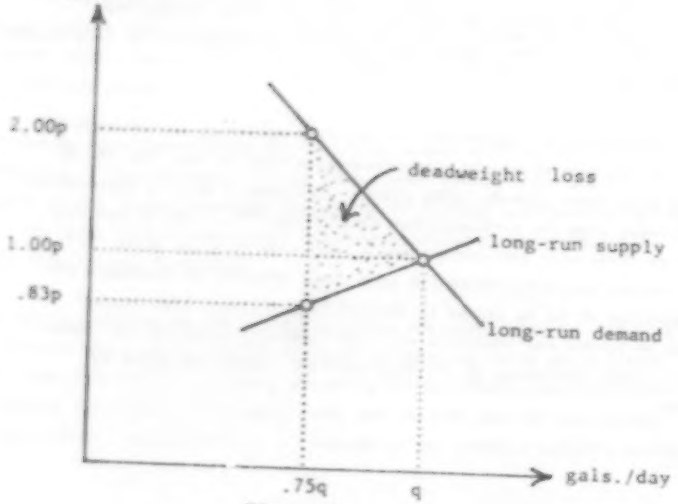


Figure 4

A further implication is that the long-run supply and demand responses are curtailed by the rationing. Producers of rationed gasoline will not increase output if consumption is not permitted to increase apace. Consumers for their part are redirected away from productive adjustment efforts and into coping with the rationing scheme instead. This in turn means that the crisis is continued and part of the softening in price which would take place in a free market is foregone.

One must conclude therefore that rationing does not make a positive contribution to the transition and actually inhibits the supply and demand accommodations to the new higher price. In that respect the effect is very similar to price ceilings.

Assuming less than a perfect distribution of the coupons does not change this conclusion. Indeed, it strengthens the conclusion. To the extent that the politically favored recipients of coupons would rather sell them rather than use them to purchase gasoline indicates that they value what the cash will buy more than the gasoline. Essentially those below the market price on the demand curve will sell coupons to those further up on the demand curve. The more distorted the initial endowment of coupons, the higher the price that coupons will command. Thus, the price of coupons are a function of imperfection in the distribution rather than the difference between the pre and postemergency prices.

In an economic sense rationing does not facilitate the accommodation of a supply emergency. Rather, it adds costs and further distorts the allocation of resources. Perhaps the most that can be said for the latest rationing plan is that it improves upon the initial distribution of coupons and reduces somewhat the extra costs. The basic problem remains, however. That is, the free market adjustment process is actually inhibited.

This is not to say that there will be no one who will gain if rationing is imposed. Clearly some will have an improved circumstance, otherwise a rationing policy would have no supporters. Presumably, gasoline purchase rights (coupons) will be given to those who will compensate the political decision maker with, say, the greatest number of votes on election day, or in some other important way.

Bestowing coupons on those who are modest consumers of gasoline and denying them to those who are intensive users will maximize the value of the coupons and therefore the political gain from the distribution. Interestingly, the latest modifications in the Administration's plan would seem to move farther rather than closer to this principle. Intensive gasoline users in the latest version would receive monthly coupons for 54 gallons per vehicle, while nonbusiness individuals would get a monthly coupon allotment for only 42 gallons for each of their vehicles.

The coupons are, of course, a new currency. Rationed gasoline would have to be purchased with both cash and coupons under the plan. The government will control the quantity of coupons just as it now controls the quantity of money. If it behaves with respect to coupons as it has in the past with money, then the value of coupons would probably decline over time. Further, the threat of nongovernmental counterfeiting would similarly reduce the value of the coupons to reflect the risk.

The distribution of coupons with "priorities" for some groups and rationing boards to make decisions on "hardship cases," is an indication that the government anticipates criticism about the fairness of the system. There are at least two ways in which the system could be perceived as unfair. One is a mismatch between market conditions and the initial set of priorities. The other results from a subsequent change in market conditions which makes the initial assignment of ration rights inappropriate, even though it was reasonable in the beginning. The effect of the appearance of unfairness will lead to political agitation and restructuring of the plan, making future operating conditions less predictable and inhibiting the appropriate accommodation of not only the supply emergency but also the rationing plan itself.

One would conclude that the implementation of the Administration's rationing plan to cope with a supply emergency, actually impedes the economic adjustment process especially in generating new gasoline production. Contrary to the Administration's claims, rationing will not

best copy available

decrease the price of gasoline to coupon holders. Indeed the resources in the public and private sectors needed to operate the plan may further increase gasoline prices. The attempt to emulate the free market by allocating ration rights based on intensity of use, reduces the value of the coupons and with it the payment made by coupon recipients to the political establishment.

SENATOR KENNEDY'S RATIONING PLAN

In February Senator Edward Kennedy (D-Mass.) proposed a three-point short-term energy plan which would be implemented immediately. First is a gasoline rationing system which would reduce consumption 1.7 million barrels per day. Second is a 500 million barrel strategic reserve filled with crude oil from the Naval Petroleum Reserves at Elk Hills and Teapot Dome, and an unspecified level of refined product stocks. Third is a standby program to mandate increased production from federal leases above "routine levels" for a "short period of time" during an emergency.[9a]

The reduction in gasoline consumption to be achieved by rationing, is related to the level of imports. The Kennedy proposal would reduce gasoline consumption by an amount equal to 20 per cent of total imports, assumed to be 8½ million barrels per day. By contrast the presumption in the Administration's plan is a 15 per cent reduction in total imports resulting in a 20 per cent target for lowering gasoline consumption. The Kennedy target, therefore, is more stringent than the Administration's,[9b] on the order of an extra 5 per cent reduction of gasoline consumption.

Another important distinction, is that the nonbusiness coupons would be distributed to licensed drivers rather than on a basis of vehicle registration. (For businesses the distribution basis would be vehicles under both plans.) Kennedy has correctly perceived that vehicle ownership increases with income, thus the Administration's rationing plan would not achieve the desired (by Kennedy) income redistribution.

This may contribute to the political attractiveness of the Kennedy rationing plan by developing a constituency. However, it may have a perverse effect on the cash price of gasoline. Given the implied redistribution where the income reduction in percentage terms by high-wage coupon buyers is small, while the gain received through selling part of the coupon allotment by a lower wage family is a large fraction of its income, then the result could be a net increase in gasoline demand. The income elasticity of gasoline demand (the percentage increase in consumption for a 1 per cent increase in family income) has been statistically estimated to be 1.3 in a 1974 study.[10] It is possible, therefore, that a $250 per year transfer of income from the higher to the lower end of the income spectrum could yield a net percentage increase in gasoline consumption of more than 5 per cent with a corresponding boost in prices of about the same order.

Perhaps the most important aspect of the Kennedy plan is that it would be implemented right away rather than waiting for an emergency to emerge. In supply and demand terms, as indicated in Figure 4, the consumption of gasoline which is allowed under the Kennedy Plan is 25 per cent less. Given the demand and supply elasticities mentioned earlier (-.25 and 1.5 respectively, in the long run) the cash price that service station dealers can charge is forced down about 17 per cent from the price which prevailed before gasoline rationing. The reason is that the dealers have more supply than is permitted to be sold and increased competition develops among them to find those motorists with coupons who have the right to purchase the gasoline.

But at that reduced quantity, competition also intensifies on the part of motorists. Not all of the demanders will have the necessary coupons. Consequently, a market will develop in coupons and their value (price) will be determined at the point on the demand schedule associated with the reduced amount of gasoline permitted to be sold. If there are no transactions costs the coupons will hve a price equal to the difference between the demand and supply schedules at the reduced quantities. In this case the coupon value will be 1.17 times the initial cash price,[11] or $1.75 if the initial gasoline price was $1.50 per gallon.

Note that in this case coupons will still have a value even if they are perfectly distributed, since the value of the coupon is equal to the difference between the cash price which dealers are forced to charge and the value of gasoline to the last customer. In the political sense this is important. With quite a lot of wealth to redistribute via coupons with a high value, there is much to be gained by the political establishment in exchange for bestowing ration rights.

But the agitation for the rights among motorists will also be great. Since the cash price is below the market price, anyone who receives coupons would gain either through the purchase of the gasoline or by offering the ration rights for resale. Consequently, everyone would have a strong incentive to invest politically in order to receive the marketable coupons.

All this serves to divert resources away from conservation and emergency preparedness, and toward the political mechanism. It also raises the spector that when the disruption does come, survivors will tend to be those who are politically favored rather than others who have borne the burden in the past.

There are also problems on the supply side. With the domestic market for gasoline curtailed, the derived demand for imports AND domestic production are both reduced. Clearly the latter is counterproductive. A better policy is one which stimulates domestic petroleum production in advance of the disruption. By contrast, one which adds a constraint on the complex supply system in the United States is sure to make the task of preparing for an emergency more costly.

The other two policies (the strategic reserve and temporary overproduction from federal leases) have some potential for being helpful. Stockpiling is the classical, indeed biblical, prescription for preparing for an impending shortage.[11a] It potentially fills the gap in the flow until the consumption and production patterns can be altered. However, correct decisions are not easy to make in this regard. The intensity and the duration are seldom known with a high degree of certainty, and the onset is almost always a surprise. A government decision maker, consequently, is not anxious to release the stocks and sustain strong criticism for doing so should the crisis be prolonged.[12] Recent experience indicates that it is also difficult for U.S. decision makers to halt the additions to the strategic reserve after a crisis has begun. This was the case during the Iranian Revolution when 22 million barrels was added to the strategic reserve after the production in that country was completely halted.

Presume, however, that the governmental decision making mechanism performs in a useful way and that the Kennedy ration plan has achieved the 25 per cent reduction in gasoline consumption and the filling of the strategic reserve well in advance of the supply emergency. To see whether that is a good strategy, it is necessary to compare the cost of the Kennedy policy with the free-market transition costs.

There are two aspects of getting prepared. One is the period of time that the gasoline market is denied 25 per cent of the supply, and the other is the cost of the crude oil for 500-million barrel strategic reserve.

In the first case there is the cost which society incurs by reducing its consumption in advance of the supply disruption. The cost of phasing in the reduction in consumption over three years, adjusted to the point when the effort is complete, is on the order of $20 billion dollars.[13] Of course, this revenue does not disappear from society. It is received in large part as income from the sale of coupons and used to purchase other goods for consumption. However, there is a deadweight loss, not received as income by the rest of society. (See the shaded area in Figure 4.) This is estimated to be $60.2 million per day at the end of the three years, during which time the consumption of gasoline is phased down. The total discounted cost for the whole three-year period is about $3.8 billion.[14]

The implication of all of this is that even if the supply disruption is perfectly timed in the sense that it occurs on the very day that the three-year phase-in of the Kennedy policy is complete, then the costs which would have been incurred to that point is approaching the 4.8 billion maximum savings from not incurring the transition costs after the supply description took place. Indeed, after just 17 days the breakeven point would be reached.

To this amount must be added the costs of the administering the coupon rationing program. Since it is modeled on the Administration's standby plan, differing only with respect to the basis of coupon distribution, those costs are probably a reasonable approximation for the Kennedy plan.

Recall that $600 million is needed to set up the plan and $2 billion per year to operate it (using the Administration's modest estimates). Thus, for the three years it takes to phase in the full rationing plan, it will cost motorists conservatively almost $7 billion. But that is not the end of the matter since the rationing plan would continue in operation until and after the supply disruption takes place.

There are also costs associated with increasing the strategic reserve from 92 to 500 million barrels of crude oil. The most notable is funding the purchase of the fill. Assuming an average price of $30 per barrel, the bill for topping off the reserve would be more than $12 billion. Even if there were no carrying charges or other costs, the $12 billion for the additional fill would exceed by several times the savings which might reasonably accrue by reducing all of the $4.8 billion transition costs.

In summary, the costs of Kennedy rationing plan far exceed those for the Administration's standby plan because the former has to be operated well in advance of the supply disturbance. Consequently, the cost of the ration scheme is several times what might be saved from reducing the post-disruption transition costs. However, the most disturbing aspect of the Kennedy coupon rationing plan is that it significantly retards the effort to increase domestic supplies in advance of the expected disruption. The part of the Kennedy proposal which could conceivably help is the strategic reserve. But even here the costs are liable to be several times the benefits which would accrue from augmenting supplies during the emergency.

SENATOR JOHNSTON'S MOTOR FUEL RATIONING FEE

An imaginative alternative to coupon rationing was introduced by Senator Bennett Johnston (D-La.) on April 16 as bill S.2570, Emergency Motor Fuel Demand Rationing Act of 1980. Rather than issuing coupons, Senator Johnston would authorize the President to impose a motor fuel fee equal to the difference between the pre and postemergency prices, and rebate the proceeds through the income tax, withholding system, social security, and other existing transfer payment programs. Such an arragnement it is claimed reduces resources consumed in the coupon white market and other transactions costs.

The details of the plan include the following.

1. The triggering mechanism is one that requires a 20 per cent reduction in U.S. gasoline, diesel fuel, and number 2 heating oil supplies which is expected to last for at least 30 days.

2. The base period from which the 20 per cent reduction is measured, is any consecutive 12-month period during the preceding three years, adjusted for the serular demand trend, seasonal variations, and international energy sharing agreements.

3. The fee which the President is authorized to buy, should be at "a level which will insure an orderly market in motor fuel and will restrain demand to the extent required by the shortage."

4. The basis for rebating the proceeds from the fee are the same as that for coupon rationing. That is, the average available per registered vehicle after the reduction in supply, adjusted for geographical variations in consumption, and for funds set aside for distribution by states.

5. The form of the distribution is to be chosen by the Administration among the following: direct cash payments, income tax credits, reduced withholding, increased supplemental security income payments, larger veterans benefits, increased transfers to Windfall Profit Tax beneficiaries, and other unspecified methods.

6. Not only gasoline but also diesel fuel will be taxed, unlike the Administration's coupon rationing plan.

7. Price and allocation controls on gasoline would be temporarily suspended.

The principal advantages from the political perspective are the reduction of the costs needed to administer the plan and the larger rebates to the vehicle owners. This occurs for two reasons. First, the transactions costs involved in the redistribution are demonstrably less. Second, the revenues are chosen by the political establishment in the form of a fee rather than by the buyers and sellers in the white market for coupons.

As was argued earlier, the value of the coupons in the Administration's plan is determined by the degree of distortion in the initial assignment of ration rights, rather than by the difference between the gasoline prices before and after the supply emergency. Consequently, the more tailored the initial endowment of coupons is to the actual pattern of demand, the lower the value of the coupons. By contrast, a fee on motor fuels is a certain payment which will raise revenue and permit its redistribution along the lines desired by the political establishment.

Viewing the imposition of the fee in terms of supply and demand shows the similarities and contrasts with coupon rationing. The predisruption equilibrium is shown at point "1" in Figure 5.

Unless one assumes that the unexpected supply reduction can be perfectly phased with the imposition of the fee, then the postdisruption equilibrium is at "2" where the short-run demand and supply have determined the new higher market price and reduced consumption. As with the Administration's

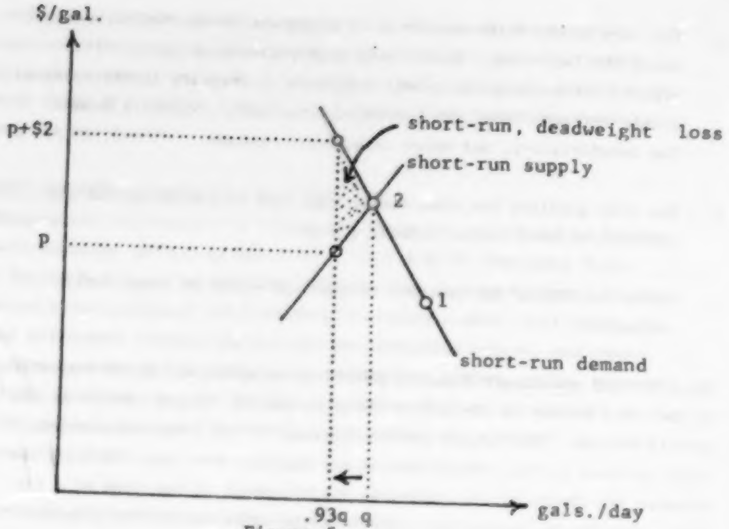


Figure 5

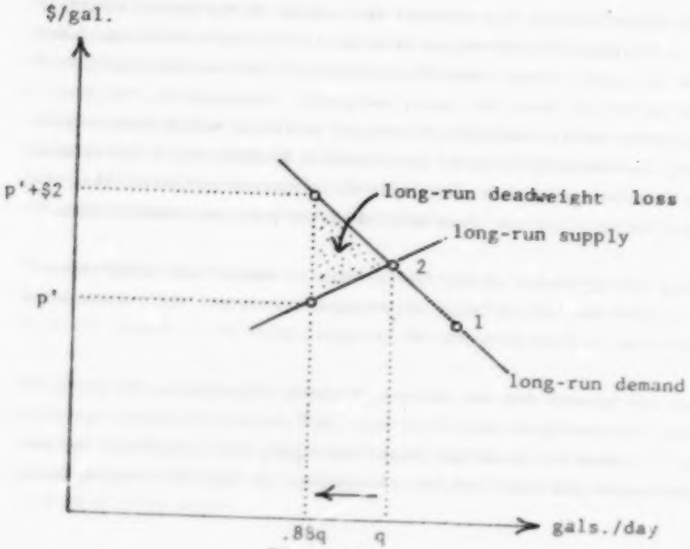


Figure 6

coupon rationing system, the short-term run up in price cannot be avoided. The disruption catches people unprepared and the immediate response is intense pressure on petroleum prices as consumers experience great difficulty in adjusting their consumption patterns and producers have only limited ability to augment supplies in the short-term.

The subsequent imposition of the fee roughly equal to the difference between the prices before and after the disruption, must be viewed in terms of the equilibrium prevailing at the time the levy is imposed. This is the postdisruption equilibrium "2" in Figure 5.

The initial 20 per cent reduction in consumption yields a short-term run up in price of 133 per cent or $2 if the initial price was $1.50 per gallon. A subsequent tax of $2 per gallon would further boost prices to motorists by 49 per cent or $1.71 per gallon.[15] Note that as is the case with any excise tax, some of it cannot be passed on by suppliers and must be absorbed by them. Effectively a tax wedge is forced between the price paid by consumers and the price received by producers, lowering the latter. This further reduces the total produced and consumed by a little more than 7 per cent.[16]

It is not strictly correct to conclude that because of the rebates, some motorists will see an unchanged price for the fuel they use. Motorists receiving the rebates are still faced with the choice (as they would be with coupons) of spending the rebate proceeds for the gasoline or other goods. When they choose to use the rebate for purchasing gasoline, they forego the consumption of other goods and that makes the motor fuel price they see higher by approximately the amount of the fee.

Since motorists have to pay some fraction of the $2 per gallon fee for the remaining amount which is consumed, there is a notional loss which consumers sustain in the sense that they must forego the other goods and services. Offsetting this loss are the rebates they receive from the proceeds of the fee. This is not a frictionless process. However, for argument sake, presume the transactions costs are small enough to be neglected. This is in keeping with the claims that the use of existing tax institutions for collecting and rebating are significantly lower than the coupon rationing system. However, there is still a deadweight loss (the shaded area in Figure 5) representing part the value of the foregone consumption and production which is not redistributed.

If it is assumed that the initial predisruption output of motor fuel (both gasoline and diesel) was 350 million gallons per day and the prevailing average price at that time was $1.50 per gallon, then a 20 per cent reduction in supply followed by a $2 per gallon tax would bring the annual deadweight loss to nearly $6.5 billion in the short run and $12.5 in the long run.[17] (See the shaded area in Figure 6 for the long-term loss, compared with the short-run loss in Figure 5.) These large costs it should be noted exceed the $4.8 billion is associated with the free-market accommodation of the supply emergency. Thus, Senator Johnston's tax would not be cost-effective even if all of the free market transition costs could be saved.

That raises the question of how effective the tax is in handling the economic transition to a state of the world where motor fuels are 20 per cent scarcer. From the diagram in Figure 6 where long run conditions prevail, it is clear that output is even further reduced from the level which prevailed in the short run, assuming the same tax per gallon is maintained. This is why the deadweight loss is greater in the long run than in the short run.

Of course, under Senator Johnston's plan the President has the authority to reduce the fee, and doing so would tend to offset the disincentives created by the tax for making the adjustments in consumption and production which are necessary to accommodate the initial disruption. But if reducing the tax is helpful, the question arises, why impose tax at all?

While there may not be a good economic answer to that question (other than the temporary suspension of product price and allocation controls) there probably is a political one. Shielding some groups from the full effects of the disruption may be politically useful if not absolutely necessary for the survival of the political establishment. In that regard, the plan redistributes considerable revenue, on the order of a half billion dollars per day, and does so at far less cost for implementation and administration compared with either of the other plans. To the extent that those most injured receive temporary assistance in the form of rebates they may be less likely to stand in the way of phasing out the plan and permitting the free market to take over the transition task.

Thus, Senator Johnston's standby rationing tax probably consumes more resources than the Administration's rationing plan even though the transactions costs are less. The reason is that the tax further reduces supplies thereby aggravating the emergency. It is, however, more politically attractive since it provides more funds to relieve hardship on those hardest hit by the emergency and to achieve other political goals.

Summary

Accommodating a supply emergency in an economic sense is mainly a matter of facilitating the transition from the short run when options are limited, to the new long run state of the world. In a political sense the task is to protect vulnerable groups from severe injury. The three options have the following ranking with respect to each objective. It should be noted that none of the options facilitates the economic transition and none has a cost which is less than that associated with the free market alternative.

	Economic	Political
Standby gasoline rationing	Least costly	Large consumers are those protected.
Kennedy immediate gasoline rationing	Most costly	Lower income and businesses are protected.
Senator Johnston's rationing fee	Very costly	Lower income and large consumers are protected.

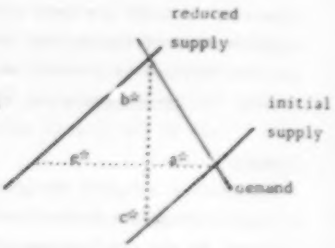
NOTES

1. See the story of Joseph and the Pharaoh in the book of Genesis.

2. The elasticities are:

	demand	supply
short run:	-.15	.90
long run:	-.25	1.50

3. Given the diagram below



where: a^* = percentage change in quantity,
b^* = percentage change in price,
c^* = percentage change in cost,
a^*/b^* = price elasticity, and
$a^*/c^* = e^*/b^*$ = supply elasticity,

the percentage increase in price, b^*, for a 20 per cent reduction in the market quantity is

$$b^* = a^*/(a^*/b^*) = -20\%/-.15 = 133.33\%.$$

In the short run the horizontal shift of the supply schedule is

$$a^* + e^* = a^* + b^*\, e^*/b^* = a^*(1 + (a^*/c^*)/(a^*/b^*))$$

which yields a short run percentage contraction in the supply schedule of

$$20\%\ (1 + .90/.15) = 140\%.$$

If this is the same shift for the long run, then

$$b^* = (a^* + e^*)/(a^*/b^* + a^*/c^*) = 140\%/1.75 = 80\%.$$

3a. The short run losses are:

$$1.333\ (\$1.50/\text{gal.})\ 275\ (10^6)\ \text{gal./day}\ (1-20\%/2) = \$495\ (10^6)/\text{day}.$$

The long run losses are:

$$.80\ (\$1.50/\text{gal.})\ 275\ (10^6)\ \text{gal./day}\ (1-20\%/2) = \$297\ (10^6)/\text{day}.$$

The difference, hence the free-market transition cost, is initially ($495-297) 10^6/day = $198 ($10^6$)/day.

4. $$\$198(10^6)\int_{0}^{456.25} e^{-(.041\ +\ .15/365)t}\,dt = \$4.8(10^9)$$

It should be noted that this is the transition cost in just the gasoline market and does not measure the cost of adjustment in the markets for kerosene, distillate, residual, and substitute fuels.

4a. Federal Register, June 28, 1978. See also Economic Regulatory Administration, Standby Gasoline Rationing Plan, Regulatory Analysis (District of Columbia: U.S. Department of Energy 1979), and Corrections and Revisions to Regulatory Analysis, March 1979.

5. Federal Register, December 10, 1979.

6. Statement of Hazel R. Rollins, Administrator of the Economic Regulatory Administration Before the House Subcommittee on Energy and Power, January 31, 1980, and Wall Street Journal of May 9, 1980.

7. "Kennedy Energy Program" Press Release (District of Columbia: Kennedy for President Committee, February 3, 1980).

8. Emergency Motor Fuel Demand Rationing Act of 1980 (S.2570). Congressonal Record April 16, 1980.

9. J. L. Johnston, "Standby Gasoline Rationing: Some Economic Comments," May 1979.

9a. Kennedy, *Op. Cit.*, p. 3-4.

9b. The underlying presumption in both the Kennedy and Administration plans seems to be that wasteful consumption of petroleum exists principally on the part of motorists and not by consumers of other refined products.

10. Michael Kennedy "An economic model of the world oil market" *The Bell Journal* V (Autumn '74), pp. 555-6.

11. $b^* + c^* = a^*/(a^*/b^*) + a^*/(a^*/c^*) = 25\%/.25 + 25\%/1.5 = 116.67\%$.

11a. James L. Johnston "Joseph and the Pharaoh," *Challenge* XXIII (March/April 1980), pp. 46-47.

12. Paul A. Samuelson quoted in Leonard Silk's *The Economists*, 1976, page 25.

13. $275\ (10^6)$ gal./day $(1-25\%/2)$ \$1.50/gal. $(100\%) = \$361\ (10^6)$/day.

$$\$361\ (10^6)\int_0^{1095} e^{-(.0182-.15/365)t}\,dt = \$20\ (10^9)$$

14. 117% (\$1.50/gal.) $25\%/2$ (275) 10^6 (gal./day) $= \$60.2\ (10^6)$/day.

$$\$60.2\ (10^6)\int_0^{1095} e^{-(.0165\ -\ .15/365)t}\,dt = \$3.8\ (10^9)$$

15. $(\$2/\$3.50)/(1 + .15/.90) = 49\%$

16. $(\$2/\$3.50)/(1/.15 + 1/.90) = 7.35\%$.

17. $(7.35\%/2)\ .8\ (350)\ 10^6$ gal./day (\$2) (365 days) $= \$6.44\ (10^9)$/yr.

$(12.24\%/2)\ .8\ (350)\ 10^6$ gal./day (\$2) 365 days $= \$12.5\ (10^9)$/yr.

Mr. **Swift**. Dr. Firestone, do you endorse the remarks of Mr. Cobb?

Dr. **Firestone**. In part I do, in part I do not.

I think Mr. Cobb makes a good point in noting that we have not one national gasoline market but many local markets. However, his broad conclusion that it would be inappropriate to have any rationing system is I think not well founded.

One of the very severe difficulties that has emerged in the gasoline crisis of recent years is the difficulty in ascertaining the supplies of gasoline in relation to the demand. I expect that all members of the subcommittee and the committee are well aware of the difficulties last summer when a number of States put in special plans, odd-even plans, and others, to restrict purchases. At that time I was in Connecticut, and I flew over New Haven harbor and saw three tankers anchored there which were laden to the gills. Uncontested press reports noted that they were there because they were unable to offload the gasoline. All the tanks were filled, all the storage tanks.

So the fact that we have a "competitive market" does not assure us of the fruits that classic economics has for many years suggested will be brought by competition.

This has to do not only with the localized nature of the markets, as Mr. Cobb has correctly pointed out, but more essentially with the oligopolistic nature of the industry, that is, the fewness of sellers. The price spiral pattern in recent years, most noticeably in gasoline, but also in other markets like sugar and antifreeze, has been for producers to announce a shortage and thereupon raise prices.

For many years this technique was not available to producers, because customers simply would not put up with suddenly increased prices. In my assessment, the fact that—for reasons in part unrelated to petroleum—we have had a highly inflationary economy for some years, has softened up consumers, so that they do accept the higher prices, unhappily, but accept them. And producers, not only in petroleum, but in other industries as well, have become perceptive of this, and this tends to contribute to our inflationary trend.

Again, on our petroleum market, I do not think that a hands-off policy by Government would assure an equilibrium price in the classic economic sense—because of the oligopolistic nature of the industry, the fewness of sellers, and because of the recognition by these sellers that in recent years buyers are indeed willing to accept higher prices.

Mr. **Swift**. It is my understanding from your testimony that one of your major objections to this plan is the white market aspect. Is your alternative to simply not make them tradeable at all?

Dr. **Firestone**. That is correct.

Mr. **Swift**. How do you respond to the black market problem that that would inevitably foster?

Dr. **Firestone**. I would look back to our experience in World War II. Gasoline was the earliest product which was rationed. And while there was some black market, the amount of it was very small in proportion to the total sales of gasoline. I think this is enforceable.

I believe, in response to your first question, that not only should we not permit the sale of coupons, but that it should be made a criminal offense, with very heavy penalties. Just as there is incentive for violating the internal revenue laws, and just as the prosecution of some people who have violated them encourages others to obey, I think the effective prosecution of violators would be fairly effective. And I believe that forbidding the black market, or white market, would be the way to go.

Mr. SWIFT. What would you think of some proposal in between, a cap, in which you would go with a white market knowing that it might slip and we would call it a gray market?

Dr. FIRESTONE. I find difficulty in perceiving the nature of an in-between market. That is, the coupons are salable or they are not. I take it what you have in mind is limiting their salability to certain individuals or categories?

Mr. SWIFT. Or capping the price.

Dr. FIRESTONE. Or a cap on the price. What would happen to this, I fear, would be a severe difficulty; that is, if the coupons are salable at, let us say, $2 and no more, this effectively raises gasoline prices by that amount. And this brings precisely the inflationary effects which I fear, and about which I have testified.

The proposal for transferability of coupons I think points to a very real problem; that is, the inequity—in some fashion—of any rigid system of assigning coupons. And I think the answer to this must be the effective use of decisions at a local level, as to giving additional coupons.

For example, in World War II there were several levels of supply. Most citizens were in the A category, and had to place a sticker on their front windshield so their neighbors knew how much gasoline they were getting. Those who had need for further gasoline were put in the B category. And there was a C category. And then an X category for people like physicians who—those days were so distant—were still making house calls. But in any event, I do believe that this could be resolved at the allotment level—to assign more gasoline rights to people who legitimately deserve them.

Mr. SWIFT. Thank you.

Counsel.

Mr. BOLAND. Mr. Cobb, DOE has told us that to set up their rationing scheme would take anywhere up to and beyond 15 months, and would require of course some system of allocation regulations and price controls as well.

How long do you estimate your free market approach would take to correct whatever distortions a 20-percent collapse in the ordinary market might cause?

Mr. COBB. In my additional remarks for the record I assumed five calendar quarters, because that is how long it took the world economy to adjust back in 1973-74. I think that the free market would produce the most rapid adjustment. If you imposed a gasoline rationing system or even a fee or tax as Senator Bennett Johnston has proposed, the market would never fully adjust to the shortage problem. You would have a permanent distortion built into the system.

I would like to make a comment or two in response to Dr. Firestone's statement here earlier. He seems to approve of the system that was in effect in World War II. But he hasn't studied the World War II system. In the first place, there was no shortage of gasoline during World War II. It was a shortage of natural rubber. The policy was to prevent the wearing out of tires on automobiles. Gasoline was not in short supply except for a few months in the New England States during 1943.

A system such as he proposed for giving people categories of use and a limited number of coupons works fine if you have a surplus of gasoline available. But when you actually have a shortage of gasoline it would not work at all. The black market problem would be your most serious problem, and I think shooting people for violating it even wouldn't stop it. They tried that in Russia and Cuba and it still doesn't stop the black market.

Mr. **Boland**. Thank you.

Mr. **Swift**. Dr. Firestone.

Dr. **Firestone**. Mr. Chairman, I would like to respond to this. I appreciate Mr. Cobb's concern about the extent of my knowledge and study of the rationing system of World War II. Indeed, he is correct in stating that gasoline was not in short supply; the oil industry and refining facilities were more than adequate for civilian and military needs. The shortage was not simply that of tires. My homework is such that I can advise Mr. Cobb, there was an especial shortage of transportation for the gasoline itself. It was for this reason that the allocators decided the amounts of gasoline to be available to the public.

There were precise limits placed, State by State, and these limits were adhered to throughout the war. So the situation then is quite precisely comparable to the one contemplated by the legislation of 1979; that is, a situation in which the available gasoline supply is insufficient to meet the demand at an acceptable price. And for this reason, I believe that the arguments I presented earlier do still stand.

Mr. **Cobb**. Mr. Chairman.

Mr. **Swift**. We will give you 1 minute. We have a vote.

Mr. **Cobb**. One final comment.

Dr. Firestone referred to the situation last year when tankers were in the harbors and unable to offload supplies because the storage facilities were full. I want to point out that the major problem of the gasoline lines last year was Department of Energy regulations that kept large stocks in primary storage because the DOE seems to be uncomfortable when stocks move out into secondary and tertiary storage. Indeed, the primary storage facilities were full and the tankers could not offload. But this is another example of how Government cannot plan during a crisis.

Mr. **Swift**. Thank you, Dr. Firestone and Mr. Cobb.

One of the nice things about the panels with economists is that you know if you stay here all day you would still be disagreeing. It is always extremely helpful to the members. Thank you very much, both of you, for providing the committee with your points of view.

The committee stands adjourned.

[The following statements were received for the record:]

MANUFACTURERS & AGENTS NATIONAL ASSOCIATION
National Headquarters / 2021 Business Center Drive, P.O. Box 16878, Irvine, CA 92713 / Telephone (714) 752-5231

STATEMENT OF
MANUFACTURERS' AGENTS NATIONAL ASSOCIATION
SUBMITTED TO THE
HOUSE ENERGY AND POWER SUBCOMMITTEE
HOLDING HEARINGS ON
THE STANDBY GASOLINE RATIONING PLAN

Mr. Chairman and Members of the Subcommittee:

Manufacturers' Agents National Association (MANA) is the national professional association for manufacturers' agents and their principals. Our membership currently numbers 7,000 manufacturers' agencies, each employing an average of 5 sales agents and each representing 10-12 manufacturers in a given territory.

Manufacturers' agents are key links in the national chain of commerce, acting as the marketing and sales forces for manufacturing firms in such key industries as aerospace and aviation, automotive, construction equipment, power transmission, heavy machinery, food processing, textiles, plastics, transportation equipment, and many others. Our industrial economy is dependent on the manufacturers' agent's effective marketing and sales services. In fact, over $200 billion in our yearly GNP is sold through manufacturers' agents.

Manufacturers' agencies, whether sole proprietorships or incorporated multi-man operations, are small, independent businesses. They typically operate in a territory ranging in size from a single metropolitan area to a multi-state region.

In all cases, though, the very nature of the manufacturers' agent's business requires mobility within the territory. And the key source of this mobility is the passenger car. In large metropolitan or rural areas, where air travel between customers is not possible, the automobile is thus the agent's sole tool for the survival of his business. And in this era of uncertainty in the future of our national fuel supply, an adequate supply of gasoline has become a determining factor for the agent's success or failure. For this reason, we submit to the subcommittee our comments on the Standby Gasoline Rationing Plan.

The Standby Gasoline Rationing Plan recently proposed to Congress by the Administration sets forth a national plan for the allocation of fuel supplies in times of serious national shortages. While we feel that for individual drivers who can curtail discretionary driving, the per vehicle allocations are adequate, the business dependent on the automobile must have supplemental allotments to stay in operation. This is particularly true for manufacturers' agents, who, because of their simultaneous representation of several manufacturers, present the best means of economically continuing the flow of goods and services in times of fuel supply shortfall.

The Plan contains essential provisions which allow businesses to apply for supplemental allocations of fuel depending on their historical usage of gasoline during the base period -- defined by the Plan as the 12 months preceding the implementation of rationing. Manufacturers' agents, who already keep adequate records of gasoline consumption and other automobile expense records for federal income tax purposes, would have readily at hand the type of information which the Department of Energy (DOE) would require in granting additional allotments. In times of a critical shortfall in the country's available gasoline supplies, these provisions will give businesses like manufacturers' agencies an adequate portion of their normal usage and will guarantee that these independent business people remain in business.

Of course, any serious shortfall will require drastic cutbacks by all segments of the consuming public -- businesses included. And experience has shown that manufacturers' agents can and do take significant steps to conserve gasoline by combining sales calls, better planning their auto trips, and making use of such other tools as the telephone and direct mail solicitations to cover parts of their territories where regular automobile travel would not be feasible. But even these conservation steps do not lessen the need of agents for a minimum supply of gasoline. To this end, we believe the Standby Gasoline Rationing Plan at least recognizes this need and provides the procedures whereby agents can receive additional allotments.

Procedurally, though, DOE must work to ensure that the mechanism set up to grant supplemental allotments be as simplified as possible. Record-keeping is already a major burden for manufacturers' agents, simply because they are self-employed and their travel and entertainment, federal income tax withholding and social security tax records, and employee payroll deduction records must be scrupulously documented for federal and state tax purposes. The potential for additional burdensome paperwork in a supplemental allotment process is overwhelming, so it is incumbent upon DOE to see that the process established is as simple and straight-forward as possible.

As independent business people, manufacturers' agents' time is spent more productively in pursuit of their business of selling, rather than filling out unnecessarily complex paperwork. We urge DOE to recognize this fact not only for manufacturers' agents' benefit, but for the benefit of all small businesses dependent on adequate supplies of gasoline for their survival.

STATEMENT

By: William C. McCamant
Vice Chairman of the Board
National Association of Wholesaler-Distributors

Before: Subcommittee on Energy and Power
House Interstate and Foreign Commerce Committee

Subject: Revised Standby Gasoline Rationing Plan

Date: June 30, 1980

NATIONAL ASSOCIATION OF WHOLESALER-DISTRIBUTORS
1725 K Street, N.W. • Washington, D.C. 20006 • 202/872-0885

My name is William C. McCamant and I am Vice Chairman of the Board of the National Association of Wholesaler-Distributors.

The National Association of Wholesaler-Distributors (NAW) is a federation of 116 national commodity line associations (list attached) composed of more than 50,000 merchant wholesaler-distributor establishments throughout the United States. Our members predominantly consist of smaller, closely-held, family-owned firms. Wholesale sales will exceed $1 trillion in 1980. The industry sells to retailers, manufacturers, the construction industry and thousands of businesses in all segments of industry.

We believe the Revised Standby Gasoline Rationing Plan now pending before the Congress is the best that can be devised considering the complexity of the problem. Therefore we urge the Congress to approve the Revised Plan. NAW has studied the Revised Plan from a very broad point of view. We recognize that for our industry to continue its functions, manufacturers, suppliers, processors, retailers, common carriers, the construction industry, agriculture--, indeed, all segments of industry--must continue to operate at the highest level possible under any energy emergency condition We also appreciate the need for gasoline by the consumer for personal and household transportation.

A major premise of the rationing of gasoline should be that supplies are responsive to the functional use of the vehicle and the essentiality of the service it performs. At hearings conducted by the Department of Energy and by the Commerce Committees of the House and Senate, we urged that the earlier plan be modified to recognize the additional gasoline needs of the owners of commercial vehicles and provide, from the very onset of gasoline rationing, a level which would permit businesses to maintain approximately the same percentage of historic mileage and vehicle use as would be permitted individuals. The fact that it is difficult to identify the commercial vehicles that require additional fuel allotments makes it all the more imperative that they be identified in advance of rationing so that the business community will have more precise knowledge as to the gasoline that will be available to carry out the necessary functions of businesses.

The Revised Plan recognizes the additional gasoline requirements for vehicles used in business, and provides for additional fuel allotments from the very beginning of rationing.

In particular, we note Paragraph 570.32, Commercial Firm Allotments, which reads as follows:

> "A firm engaged in commerce or business as determined by DOE will receive supplemental allotments equal to the difference between the firm's per vehicle allotment determined pursuant to sub-chapter C and a percentage of such firm's consumption of gasoline during the base period, such percentage to be determined by DOE."

In order to implement the provision for providing additional gasoline supplies to commercial vehicles, the Department of Energy plans to establish a mechanism for the firms to report gasoline use data and it will be incumbent on each firm to report the data to DOE. We also approve of the provision that not only vehicles owned by businesses but vehicles owned by persons who use their own cars for business, such as salesmen, will be able to apply for additional gasoline allotments.

Under the previous plan during a 20% shortfall of gasoline, automobiles used by the wholesale distribution industry would receive approximately 27% of their usual gasoline consumption. Under the new plan, the DOE estimates that 80% of normal supplies would be provided. The same is true for trucks operated by our industry. This added supply will permit our industry to continue its necessary economic function.

While we recognize that the implementation of the plan will be very costly, we believe that it will be less costly than the chaotic conditions that would exist if commercial vehicles received only 25% of their normal gasoline usage. The new plan provides for commercial vehicles to receive additional gasoline supplies from the very onset of gasoline rationing. This will help to reduce a vast shortage of products. It is very important that deliveries of merchandise be maintained as businesses cannot operate, men cannot be employed, and households cannot function without needed goods and supplies.

We also note, Mr. Chairman, that the Standby Gasoline Rationing Plan now embodies the recommendations made by your Subcommittee. These recommendations were most constructive and stand as a positive contribution to emergency planning.

Under the best of gasoline rationing plans, business operations will be extremely difficult. The Revised Standby Gasoline Rationing Plan is the best that can be developed and we recommend that the Congress give its approval.

Attachment

National Wholesaler-Distributor Organizations

Affiliated with the National Association of Wholesaler-Distributors

Air-conditioning & Refrigeration Wholesalers
American Dental Trade Association
American Jewelry Distributors Association
American Machine Tool Distributors' Association
American Supply Association
American Surgical Trade Association
American Traffic Services Association
American Veterinary Distributors Association
Appliance Parts Distributors Association, Inc.
Associated Equipment Distributors
Association of Footwear Distributors
Association of Steel Distributors
Automotive Service Industry Association
Aviation Distributors & Manufacturers Association

Bearing Specialists Association
Beauty & Barber Supply Institute, Inc.
Bicycle Wholesale Distributors Association, Inc.
Biscuit & Cracker Distributors Association

Ceramic Tile Distributors Association
Ceramics Distributors of America
Cooperative Food Distributors of America
Copper & Brass Servicenter Association
Council for Periodical Distributors Association
Council of Wholesale-Distributors
  American Institute of Kitchen Dealers

Distributors Council, Inc.
Door & Hardware Institute
Drug Wholesalers Association

Electrical-Electronics Materials Distributors Assn.
Explosive Distributors Association, Inc.

Farm Equipment Wholesalers Association
Fireplace Institute
Flat Glass Marketing Association
Fluid Power Distributors Association, Inc.
Food Industries Suppliers Association
Foodservice Equipment Distributors Association
Foodservice Organization of Distributors

General Merchandise Distributors Council

Hobby Industry Association

The Irrigation Association

Laundry & Cleaners Allied Trades Association

Machinery Dealers National Association
Mass Merchandising Distributors Association
Material Handling Equipment Distribution Association
Monument Builders of North America - Wholesale Div.
Music Distributors Association

National-American Wholesale Grocers' Association
National Appliance Parts Suppliers Association
National Association of Aluminum Distributors
National Association of Brick Distributors
National Association of Chemical Distributors
National Association of Container Distributors
National Association of Decorative Fabric Distributors
National Association of Electrical Distributors
National Association of Fire Equipment Distributors
National Association of Floor Covering Distributors
National Association of Marine Services, Inc.
National Association of Meat Purveyors
National Association of Plastics Distributors
National Association of Recording Merchandisers, Inc.
National Association of Service Merchandising
National Association of Sporting Goods Wholesalers
National Association of Textile & Apparel Wholesalers
National Association of Tobacco Distributors
National Association of Writing Instrument Distributors
National Beer Wholesalers Association
National Building Material Distributors Association
National Business Forms Association
National Candy Wholesalers Association
National Ceramic Association, Inc.
National Commercial Refrigeration Sales Association
National Electronic Distributors Association
National Fastener Distributors Association
National Food Distributors Association
National Frozen Food Association
National Independent Bank Equipment Suppliers Assn.
National Industrial Belting Association
National Industrial Glove Distributors Association
National Lawn & Garden Distributors Association
National Locksmiths' Suppliers Association
National Marine Distributors Association
National Notion Wholesaler Distributor Assn., Inc.
National Paint Distributors, Inc.
National Paper Trade Association, Inc.
National Sash & Door Jobbers Association
National School Supply & Equipment Association
National Solid Waste Management Association
National & Southern Industrial Distributors Associations
National Swimming Pool Institute
National Truck Equipment Association
National Welding Supply Association
National Wheel & Rim Association
National Wholesale Druggists' Association
National Wholesale Furniture Association
National Wholesale Hardware Association
Northamerican Heating & Airconditioning Wholesalers
North American Wholesale Lumber Association, Inc.

Optical Laboratories Association

Pet Industry Distributors Association
Plastercraft Association
Power Transmission Distributors Association, Inc.

Safety Equipment Distributors Association, Inc.
Scaffold Industry Association
Shoe Service Institute of America
Specialty Tools & Fasteners Distributors Association
Steel Service Center Institute

Toy Wholesalers' Association of America

United Pesticide Formulators & Distributors Association

Wallcovering Wholesalers Association
Warehouse Distributors Association for
  Leisure & Mobile Products
Watch Materials & Jewelry Distributors Association
Wholesale Florists & Florist Suppliers of America
Wholesale Stationers' Association
Wine & Spirits Wholesalers of America, Inc.
Woodworking Machinery Distributors Association

National Solid Wastes Management Association
1120 CONNECTICUT AVENUE, N.W. • SUITE 930 • WASHINGTON, D.C. 20036
TELEPHONE (202) 659-4613

EUGENE J. WINGERTER
EXECUTIVE DIRECTOR

Statement To

SUBCOMMITTEE ON ENERGY AND POWER

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

U.S. HOUSE OF REPRESENTATIVES

on

STAND-BY GASOLINE RATIONING PLAN

Presented By

Linda B. Wilbur
Manager, Fuel Policy Program
National Solid Wastes Management Association

June 27, 1980

- INSTITUTE OF CHEMICAL WASTE MANAGEMENT
- INSTITUTE OF RESOURCE RECOVERY
- INSTITUTE OF WASTE EQUIPMENT DISTRIBUTORS
- INSTITUTE OF WASTE TECHNOLOGY
- WASTE EQUIPMENT MANUFACTURERS INSTITUTE

The National Solid Wastes Management Association (NSWMA) appreciates the opportunity to comment on the Stand-By Gasoline Rationing Plan sent to Congress on June 12, 1980.

We represent the private waste service industry, with over 10,000 companies operating more than 65,000 refuse collection vehicles in service today, collecting more than 50% of the nation's residential and 90% of the nation's commercial and industrial wastes. Our industry is totally dependent on motor fuels for performing its essential public health services.

We have been following closely the development of the gasoline rationing plans over the past several years. We have participated in public comment process and have also met with a number of officials at the Department of Energy and with members of Congress.

We recognize that a stand-by gasoline rationing plan is necessary. The United States does not now have systems to deal with supply interruptions -- there are no emergency plans in place. Our nation must be prepared for severe and sudden interruptions in world petroleum supplies, interruptions whose severity and duration will be uncertain when they occur.

The consequences of our unpreparedness could be disastrous. A realistic way to allocate shortfalls during a supply interruption is absolutely critical.

Recognizing our country's vulnerability to a sudden cut-off in petroleum supplies and the need for everyone to conserve energy, our industry has taken measures to cope with the growing problem of fuel scarcity and escalating prices with an emphasis on conservation.

The Association has recently developed a fuel program. The purpose of this program is not only to obtain fuel for the industry if there is a shortfall but to discover ways in which fuel and energy can be saved in our vital day-to-day operations.

A recent survey of the private refuse collection industry undertaken by the Association emphasizes dramatically our efforts to conserve energy. Our industry has initiated the following measures during the past five years:

- Replaced gasoline powered trucks with diesel powered trucks in order to achieve better mileage (about 20-25% increase in miles per gallon). (About 80% of those surveyed.)

- Re-examined each routing system and condensed two or more routes into one when appropriate. (About 65% of those surveyed.)

- Trained employees in fuel conscious attitudes -- less idle-time for engines , or shutting down engines at brake time.

- Recommend equipment design changes to manufacturers which will help the trucks in conserving fuel -- recommendations to make lighter compactor bodies, develop tires that receive better mileage and install self-adjusting fuel consumption regulators.

- Made management changes in order to monitor and reduce fuel consumption by taking more time with daily driver reports or hiring a full-time route analyst to increase productivity and efficiency.

Our survey also demonstrated that despite these methods to cut back the use of fuel, 85% of our member companies have had difficulty obtaining needed fuel over the past two years. Furthermore, when they have been successful in obtaining the fuel, they have either had to obtain it from state set-aside programs or from suppliers other than their regular supplier, at a cost of 9 - 11 cents more per gallon.

We recognize the obligation to increase our conservation efforts in the event of a national emergency. The extent to which we can institute additional conservation measures during a future emergency is limited by the fact that most measures which may be called on in an emergency are already being implemented and are yielding energy savings today.

Furthermore, we are concerned that certain environmental regulations preclude any conservation of fuel. Specifically, the Environmental Protection Agency's (EPA) final rule regarding Truck Mounted Solid Waste Compactors: Noise Emission Standards prevents significant fuel savings in the industry by hindering the increased use of diesel engines, which are 30 to 50 per cent more energy efficient for garbage trucks. We estimate that some 100,000 gallons of fuel will be wasted annually as a result of compliance with the noise standard. We are presently in litigation with EPA over this regulation.

We are, therefore, vitally interested in any plans which will affect a public health industry committed to developing ways in which to conserve energy. We have analyzed the present stand-by rationing plan carefully. Based on that analysis and the fact that we are wholly dependent on petroleum based fuel sources, we offer the following comments:

1. We recommend that this plan permit those in a priority users category whose uninterrupted operations are determined to be essential to the national interest of public health and safety be entitled to receive 100% of the current requirements. As the plan is now designed, sanitation service companies as a priority class user would receive about 80% of the necessary fuel to operate. This, of course, means that only 80% of the residential, commercial and industrial wastes could be collected. Twenty percent of the collection and disposal operations will have to be shut down. The resulting health problems could be on an emergency nature, particularly in congested urban areas.

We believe there is a distinction between essential and non-essential uses and regardless of the severity of the shortage, firms and persons carrying out essential tasks must receive the necessary amounts of fuel to carry out these tasks.

2. We recommend that any additional rules or orders which are developed for the rationing program during the pre-implementation period receive full public comment prior to the issuance of such rules.

   An appropriate review of regulations must take place before a national emergency occurs; otherwise, industry and the public will have difficulty in making decisions in their energy planning.

3. We recommend that a diesel fuel rationing plan be developed as soon as possible and that there be some coordination between the gasoline and diesel rationing plans.

   While we recognize the difficulties in developing a rationing plan for diesel fuel, we are disappointed that such a plan was not developed concurrently with the gasoline rationing plan.

In order to conserve and assist this country in its fuel economic planning, the sanitation service industry has made a large changeover from gasoline-powered to diesel powered vehicles. Due to this change, many of our industry members have no base period relationship with a supplier of diesel fuel because they have had insufficient time to develop one. We recommend, therefore, that in the development of a diesel rationing plan that this be considered and that there be some coordination between the two plans.

We recognize the difficult trade-offs between equitably meeting the diverse needs of millions of gasoline users and administering the very complex transportation uses of petroleum products. We must emphasize, however, that the interruption of our services could harm the environment and threaten public health.

We endorse the use of well designed rationing programs (diesel and gasoline) to deal with a catastrophic shortfall and we recognize the difficult task in formulating such programs.

We urge the members of this subcommittee to look at the consequences of a program which will interrupt a service to our nation's health and safety.

Thank you for the opportunity to present our comments. We would be happy to respond to any questions you might have.

LW11

UNION LABEL AND SERVICE
TRADES DEPARTMENT

International
Plate Printers Die Stampers
and Engravers Union of
North America

Affiliated with
AFL-CIO-CLC

June 27, 1980

Statement of Angelo LoVecchio

On Gasoline Rationing Plan

Before the Interstate and Foreign Commerce Committee

Sub-Committee on Energy and Power, U.S. House of Representatives

I appreciate the opportunity to participate in this important hearing concerning the adoption of a "Standby Gasoline Rationing Plan." The objective of a successful ration plan is one that provides a method which insures equal and fair distribution of gasoline supply to the American people.

In considering a plan for the future, it is advisable that we review the experience gained in the past when it become necessary to implement a gas ration plan during World War II.

The heart of the distribution plan at that time was an offset printed coupon issued by the Government which was to be exchanged by the bearer for his fair share of gasoline. This coupon became a valuable and prized possession. It permitted the purchase of a scarce and vital item which money alone could not buy. It did not escape the attention of counterfeiters and criminals that the offset printed coupon could be easily duplicated. Printing establishments using the offset process and surface printing could be found in every village, city and state of the United States. The offset process is used by counterfeiters because they can easily make plates through the photographic process. Counterfeiting became rampant and widespread through the nation. Large amounts of gasoline were diverted to persons who had acquired counterfeit coupons, thus depleting the supply for those who had genuine coupons who were entitled to a supply of gasoline. The problem reached such proportions that it destroyed the confidence of the people and the effectiveness of the ration plan.

The failure of the plan became the subject of a Congressional Hearing. The Subcommittee of the Committee on Interstate and Foreign Commerce of the House of Representatives pursuant to a resolution of the House held hearings in April and May 1944. On page 76 of the hearings, the following exchange reveals the extent of the counterfeiting.

> ✓"Mr. Wolvering: When you take the question of counterfeiting stamps, what is the percentage?
>
> Mr. Brown: 15 to 50 percent.
>
> Mr. Holmes: C-Coupons
>
> Mr. Brown: C-Coupons
>
> Mr. Polier: At one time.
>
> Mr. Wolvering: There is something wrong some place or they would not be out to the extent that they are."

Yes indeed, there was something wrong. The Government had failed to protect the valuable coupon with proper security printing safeguards that would discourage and prevent counterfeiting.

The Director of the Secret Service, Mr. Knight, on page 951 of the Senate appropriation hearing for 1980 states that according to the best legal authorities the gas ration coupon would be "an obligation of the United States" and would be subject to counterfeiting laws which the Secret Service would enforce.

In this regard the United States currency is protected by law. The National Currency Act of 1862 specifies that such notes to be "Engraved and Printed." Therefore because of the high skill required to execute the art of Engraving and Plate Printing and the difficulty of imitating their printed impressions of artistic beauty, this process has been used to print the U. S. currency to the present day.

It is evident from the documented history and the characterization of the Secret Service regarding the gas coupon as an "obligation of the United States" that the Government has an inescapable obligation to provide the same safeguard and protection for the gas ration coupon as it does for the U.S. currency.

I respectfully request that in order to prevent the mistake of the past and to minimize the threat of counterfeiting, that the formulation of the Standby Gas Ration Plan include in its planning the adoption of the time-tested Intaglio Process of printing which has demonstrated its merit in safeguarding the U.S. currency since 1862.

There has been no circumstance in recent times that has had such a devastating impact on the American people as the problem concerning the supply of gasoline. The public has become frustrated, disappointed and suspicious regarding this vital issue. Whether justified or not, the mood exists. The American people do not deserve an additional disappointmnt inherent in an insecure gas ration coupon. They are entitled to a fair and equal share of gasoline free from counterfeiting.

I am sure we can all agree that the printing of the obligations and securities of the United States is a function where the highest quality of printing is indispensable to the welfare of the American people. It seems, if we can learn a lesson from history, that in the vital matter of printing United States obligations, the risk involved in adopting cheaper and inferior methods that result in counterfeiting far outweigh the savings. Assuming an alleged savings in utilizing the offset method, the difference in cost between the offset and intaglio process is insignificant when prorated by 153,000,000 participants. It is doubtful they would desire that type of economy in one of their vital concerns, a gas ration coupon free of counterfeiting.

The Intaglio Engraved print is obtained by compressing the paper under tremendous pressure into an engraved design on a steel plate which receives the ink below the surface of the plate. This absorbs and binds the thick viscosity of special intaglio ink into the fibers of the paper, permitting the delicate background, fine lines, shadings and deep lettering to print in a clear and distinct manner at the same time creating a light embossed image of the design on the opposite side of the note.

Unlike the cheaper surface process of printing, the Intaglio print is characterized by a third dimensional effect which is due to the variation in the thickness of the layers of ink that form the image which rises above the surface of the paper corresponding to the varying depth of the engraved design. This results in a high quality print of a durable nature, highly resistant to chemicals, soiling, and wear, and cannot be duplicated by any other process of printing.

No other process of printing can maintain the quality consistency of the Intaglio print. It maintains exactly the same fidelity of the impression and color consistency between document No. 1 to document 1,000,000 because the steel engraved plate resists any distortion of the engraved design and the depth of the engraving controls the amount of ink received for each impression.

This is not the case in the surface offset printed document due to the vagaries of the surface printing process, the ink feed mechanism and its sensitivity to humidity which produce a wide color variation over a given number of documents, in contrast to the Intaglio process that integrates the ink into the fibers of the paper. The surface offset print is obtained by a light contact of pressure transferring a shallow flat light application of a soft grease-based ink on the surface of the paper. The shallow application of the ink not having been forcefully attached tothe document by heavy pressure as is the case in the Intaglio print results in an impression of less durable quality that deteriorates and soils more rapidly than the Intaglio print, and is highly susceptible to critical alteration on contact with chemicals and detergents.

The American public will be the first level user of gas ration currency. The average person receiving a document must have the ability to easily and quickly assure himself that the document he is accepting is genuine.

A secure document should transmit intelligence to the receiver through his sense of sight, sense of feel, and sense of sound.

It would be impractible to issue a document in mass distribution which required electrical or mechanical devices for verification at the general public level. Therefore, sight, feel, and even sound should be available in the document for the layman to give him an opportunity to check the authenticity of the document. Only the Intaglio Engraved printing process meets all the sense tests outlined above. The layman can first see the fine line work, "feel" the three-dimensional lines of the raised Intaglio printing, and "hear" the sound of steel when a fingernailis scraped across blocks of the raised ink on the Intaglio printed design.

The general public is most susceptible to counterfeiting schemes, therefore, it is at this level that design and printing techniques having a high degree of observable security are required. The superiority and safety of the Engraved Intaglio impression stem from the high skill required to execute the art of hand steel plate engraving and plate printing that produce an impression unique in its characteristics. It provides the greatest safety because very few people have the special hand engraving skills and special printing presses required. This process presents the maximum difficulty to the counterfeiter in his effort to duplicate the artistic quality of the three-dimensional impression.

The counterfeiter confronted with the unavailability of special hand engraving skills, special printing presses and the difficulty to duplicate the unique characteristics of the Intaglio printed document is forced to use the easily available offset method to counterfeit the engraved document. Most all counterfeits are generated by the photo-offset method automatic plate color separation with no effort to the operator. The equipment in conjunction with offset printing presses is available in every village, town, city and state in the United States. Recent technological development of the "Color reprographic" presents an additional threat to color printed documents. It can duplicate documents in color like the xerox machine.

The advantage and safety of the Intaglio engraved process stems from the fact that counterfeits produced by the offset process results in easily distinguishable difference in appearance to the engraved coupon, and is readily and easily detected as a counterfeit coupon upon receiving it.

First -- the printing is flat and cannot be felt.

Second -- A glance reveals the offset print lacks the three-dimensional character of a genuine engraved document.

The danger inherent in adopting the offset process to print the gas coupon is that it stands to reason if a genuine document is prepared entirely by offset the photo-offset provides an ideal medium for simulation since an exact replica of the document can be produced. Therefore, without the contrast provided by the Intaglio process versus the surface-printed offset document, the general public will not have the ability to determine quickly if the coupon presented is genuine.

The Government, Department of Energy, and the Bureau of "Engraving" and Printing have the responsibility to provide the same security for the gas coupon which will be another form of currency, as it does with our paper money.

The incentive for counterfeiting the coupon will be accelerated because the coupon offers more than just money, it will provide a method for acquiring additional transportation, and freedom of movement, a restriction that the American people detest.

History reveals, as documented in the appropriations hearings, that the Bureau of "Engraving" has many times in the past, through wars, depressions, and inflation for 118 years, met the challenge to fulfill its obligation to provide the nation with high quality engraved and printed securities and obligations of the United States.

It would be more in keeping with the Bureau's mission that instead of investing 6.5 million dollars for offset presses to print the gas coupon, that they project their effort to securing additional Intaglio equipment to increase the capability of the "Engraving" Intaglio proce--, the reason for the existence of the Bureau since 1862.

It appears that with changes in the plan, such as the size of the coupon, the number of gallons per coupon, etc. and giving priority consideration to issuing a coupon with maximum security against counterfeiting requires that the above objectives deserve a re-evaluation and study concerning the printing of the Gas Ration Coupon.

PETROLEUM INVESTIGATION
(Black Market in Gasoline)

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
HOUSE OF REPRESENTATIVES

SEVENTY-EIGHTH CONGRESS
SECOND SESSION
PURSUANT TO

H. Res. 290
(76th Congress)
H. Res. 15, H. Res. 118, and H. Res. 383
(77th Congress)
AND
H. Res. 58
(78th Congress)

RESOLUTIONS RELATING TO PETROLEUM INVESTIGATION
IN CONNECTION WITH NATIONAL DEFENSE INCLUDING
PETROLEUM PIPE-LINE TRANSPORTATION TO THE
ATLANTIC SEABOARD AND IN THE
SOUTHEASTERN STATES

APRIL 19, 20, 21, MAY 2, 3, 4, 15, 16, 17, 18, 19, AND 22, 1944

THE LIBRARY OF
CONGRESS
SERIAL RECORD
SEP 1944
Copy 1
GOVT. SOURCE

Printed for the use of the Committee
on Interstate and Foreign Commerce

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1944

coupons, or he has bought counterfeit coupons, or he may have bought overissued coupons, and he may not know which ones of them he bought, but he will use those to cover up his sale to you, by passing them on to his supplier.

Mr. Harris. I understand, and there is an impression that is what has made the tremendous black market.

Mr. Polier. That is a black market, sir.

Mr. Harris. All right.

Mr. Polier. But there is a large part of the public, sir, that does not know, or did not know for a long time, that there was not an extra supply of gasoline that was being made to supply the black market. In other words, the instrumentality through which what is a truly a black market, and a serious one, as I shall try to explain, the instrumentality through which it works, is the illegal coupon.

Now, I would like to show you some portraits of some of the persons who have recently gone into this business. These are not pictures of famous men. They might be called portraits of infamous people. These are some of the people who have muscled into and become a part of the black market.

The photographs here were not printed by O. P. A. Each gentleman has beside him a number which was pinned on to his shoulder at the time he was photographed. These are records from the rogues' gallery.

These [indicating] are some of the persons who have gone into the business of supplying coupons to a public not aware of the consequences of its demands for illicit gasoline—that is gasoline not allowed by the rationing system.

These are ex-bookies; ex-convicts; ex-dope peddlers; ex-bootleggers—they are both the scum, and I might say, if one could use such a strange term in this connection, the elite of the underworld.

Mr. Holmes. Mr. Chairman.

The Chairman. Mr. Holmes.

Mr. Holmes. Have they actually been caught dealing in gasoline?

Mr. Polier. Yes, sir.

Mr. Holmes. In the coupon racket?

Mr. Polier. Yes; dealing in them; counterfeiting them; peddling them.

They are the professional criminals. They are people who have served time in prisons for counterfeiting money, in the not too distant past; counterfeiting whisky labels; operating narcotic rings; operating commercial houses of prostitution across the country, and so forth. They are America's racketeers who have drifted from one to another profitable occupation and at the moment one of the most profitable occupations is the peddling of counterfeit coupons.

This, gentlemen [exhibiting small package], is between six and eight thousand dollars' worth of counterfeit coupons. Now, you can see the advantage of operating in a racket where you can carry around six or eight thousand dollars' worth of illegal, illicit goods in so small a package. That is the wholesale delivery price. That is the delivery that would be made, shall we say, to a jobber. The coupons may have passed already through the hands of one or two wholesalers after leaving the printing plant and are now in the hands of a jobber who directly operates through other intermediaries in selling these coupons to a filling station who in turn will use them to cover up the sale of gasoline to some customer who said he did not have coupons.

And right there is one of the things we have had the most trouble with.

Mr. HARRIS. Let me ask you before you leave that chart——

Mr. POLIER. I will come back to that chart.

Mr. HARRIS. Where do you find this type of operation more prolific?

Mr. POLIER. You mean in what part of the country?

Mr. HARRIS. Yes. Is it general all over the country, or is it in certain areas?

Mr. POLIER. No; it is general. I should say it is principally concentrated in the industrial areas. The reasons for that, I think, are apparent.

I would like to go back a moment, if I may, to an explanation of what happens to this package, say, in the amount of a thousand dollars' worth. It will be sold to a filling station which, in turn, will sell you gasoline, even though you have no coupons.

Now, that is something that is important that the public understand. We hope we have done a better job lately of getting them to understand, because when you go into a filling station and you ask for gasoline and say you have one coupon which entitles you to 5 gallons, but you really awfully badly need 10 gallons to make a certain trip, and Joe, or Sam, or Moe says, "I can help you out. I have got a little extra gasoline," you get the idea, somehow or other, there is a little more gasoline than the O. P. A. says there is. All right, Sam or Joe or Moe will sell you that extra 5 or 10 gallons at 10 cents a gallon extra.

What the average motorist does not realize in that situation is that Joe or Sam has not got any extra gasoline, but what he is doing is simply tearing off some of these phony coupons here and pasting them on a sheet, passes them back to his supplier, and by that means is able to replenish the supply of gasoline, of course, taking it away from somebody else, and in some instances, as a result of that practice, causing the filling stations' tanks to go dry.

Mr. WOLVERTON. May I interrupt a minute right there?

The CHAIRMAN. Mr. Wolverton.

Mr. POLIER. Yes, sir.

Mr. WOLVERTON. If the station does not have any additional gasoline, what difference does it make then whether you use good coupons or counterfeit coupons; what would be the advantage in using counterfeit coupons, in other words?

Mr. POLIER. The advantage to Joe who runs the filling station, sir, is that he can sell more gasoline.

Mr. WOLVERTON. I thought you said that he did not have any more.

Mr. POLIER. He had no more. He had to go back to his supplier and get more. And when all of the Joes and Sams and Moes go back to get gasoline to replace their supplies on counterfeit coupons, your genuine coupons become worthless as to their face value. For example, in one State, the counterfeit situation got out of hand for a number of weeks—a new press sprung up and before we located it, the counterfeit proportion went so high that when you went to your filling station—you did not bother about this, did not want to get mixed up in this thing—when you went to your filling station to get gasoline you saw a sign there which said, "No gasoline today."

Mr. **Wolverton**. When you state that you can destroy your rationing system by negligence, I am inclined to think that the negligence can be at the top as well as at the bottom.

Mr. **Polier**. I agree. As I said before, you can destroy public confidence in O. P. A. by doing the wrong thing. There is no doubt about that.

Mr. **Wolverton**. I have in mind a different situation than you evidently have in mind or had in mind in the beginning of your answer. In other words, I am inclined to think that there is something wrong with the system at the top that makes it possible for counterfeit coupons to be used as extensively as the testimony of yourself and the preceding witness would seem to indicate.

When you take the question of the counterfeit stamps—what is the percentage?

Mr. **Brown**. 15 to 50 percent.

Mr. **Holmes**. C coupons.

Mr. **Brown**. C coupons.

Mr. **Polier**. At one time.

Mr. **Wolverton**. There is something wrong some place or they would not be out to the extent that they are.

I am not in a position to speak authoritatively, such as you, who are in a position to have made a study of the whole matter, but I will compare it with counterfeit money. That is much more difficult, evidently, than the counterfeiting of coupons.

Mr. **Polier**. Certainly.

Mr. **Wolverton**. Why is that?

Mr. **Polier**. I will be glad to go into that.

Mr. **Wolverton**. I am inclined to think that one of the reasons that it is possible is because you spread out all over the country by giving the printing to different establishments.

Mr. **Polier**. I am sorry you were not here yesterday when that was discussed.

Mr. **Wolverton**. I have been informed that the number of printing establishments has been reduced to eight. I have been so informed just now, since I asked the question.

Mr. **Polier**. Yes.

Mr. **Wolverton**. And with eight, the possibility still exists?

Mr. **Polier**. If there were in the United States a single printing plant that could do all of the printing, I can assure you that it would be used tomorrow.

Now, this matter of printing is given over to the Government Printing Office and the fewer printing plants there are to supervise the better they like it, and the better we like it. As I explained yesterday also the Secret Service and the O. P. A. special agents regularly examine those printing plants on all aspects; the matter of their employees; the matter of their safeguarding devices; the matter of their accounting for the paper, and so on. There is a constant effort made to improve the safeguarding.

I would like to go on, if I may, and refer to——

Mr. **Wolverton**. Before we leave this, I am speaking of policy now, not with particular reference to this case that I brought to your attention, but with reference to the general policy of instituting proceedings.

If a bank is found to have in its possession seven counterfeit bills, Government officers would not close the bank up, would they?

Mr. Polier. No.

Mr. Wolverton. Nor would that be your policy?

Mr. Polier. No.

Mr. Wolverton. I cannot understand why if there is no criminal intent on the part of an individual and they have been unable to determine that it was a counterfeit coupon, why their business should be closed up for any length of time.

Mr. Polier. Would you say if every one of the coupons were counterfeits, and none of them had endorsements on them and they said, "We just took whatever coupons came along,"——

Mr. Wolverton. That is a different case.

Mr. Polier. Well, I know, but I have just told you in this case. Mr. Wolverton, I do not think any action should have been taken. But, let me give you another case.

Mr. Wolverton. Here is the point I have in mind. I do not know how much experience you have had in prosecution activities before you assumed this job.

Mr. Polier. I did not assume it; sometimes I feel that I have assumed a burden, not only a job.

Mr. Wolverton. What do you mean by saying that you did not assume it? You were not drafted into it, were you?

Mr. Polier. I was not given a greetings by the President, but I regard it just as much a war duty as I did when I was in the Army, and I think I am doing just as much to help win the war.

Mr. Brown. May I say for just a minute off the record?

(After informal discussion off the record:)

Mr. Polier. Gentlemen, I would like to, in view of the discussion that has just been had (which discussion was had off the record) to perhaps clarify the policy position of the enforcement department in the gasoline cases——

Mr. Harris. Just a second. If it is agreeable, we will proceed until 12 o'clock, at which time we will adjourn to meet at the call of the Chair.

(After further informal discussion off the record:)

Mr. Wolverton. Now, for the record, just to complete what I had in mind, so that it may be clear. It will only take a half a minute. I would like to read further from this letter, which illustrates the thought I had in mind:

> The only part that hurt was when one of my friends remarked, a friend of hers was quite surprised to hear Mr. Brockmeyer was closed, and he had such an honest face. Yes, we are mighty proud of this country, but not of the New Deal snoopers. Mr. Wolverton, I am just fed up with the waste and leaders who make one feel like you were just an ordinary racketeer.

The purpose of my reading that extract was merely to indicate the attitude of the public toward the person whose business has been closed up like this. They do not know all of the facts and it creates a feeling that the person must have been very reprehensible in their conduct and not as honest as their face indicated.

Mr. Polier. Let me say, Mr. Wolverton—and I can only give you my personal feeling, that the committing of injustice, whether by legal procedure or otherwise, impairs public confidence.

[Whereupon, at 12 noon, the subcommittee adjourned.]

○